

Order-of-Entry Effects for Service Firms in Developing Markets: An Examination of Multinational Advertising Agencies

Peter Magnusson, Stanford A. Westjohn, and David J. Boggs

ABSTRACT

The internationalization process of service firms has received increased attention in recent years. Yet the question whether entry order affects firm performance for service firms in developing markets has remained unanswered. Despite lacking empirical evidence, prior research has suggested that first-mover advantages (FMAs) do not translate to service firms and developing markets. However, framed in a resource-advantage theory perspective, the authors' empirical analysis of 379 multinational subsidiaries of advertising agencies in 43 developing markets indicates a significant relationship between entry order and firm performance. The authors also examine the moderating effects of international experience, firm size, subsidiary ownership structure, and rate of economic development to assess how late entrants can mitigate late-mover disadvantages. The authors provide empirical evidence that, contrary to recent literature, service firms do enjoy FMAs. They add to the understanding of the FMA phenomenon as well as to the broader issue of the internationalization process and performance effects for service firms.

Keywords: service firms, order-of-entry effects, developing markets, emerging markets, first-mover advantages, resource-advantage theory, hierarchical linear modeling

The internationalization process of service firms has gained increased attention in recent years (e.g., Evans, Mavondo, and Bridson 2008; Goerzen and Makino 2007; Javalgi and Martin 2007). This is not surprising considering that service foreign direct investment now accounts for nearly two-thirds of total foreign

direct investment compared with less than 50% in 1990 (UNCTAD 2007) or that services has been the fastest growing sector of world trade for the past two decades (Pauwels and De Ruyter 2004). Yet despite this recent attention, the question whether timing of entry affects firm performance for service firms in developing markets has remained unanswered.

Early entrants into new markets often enjoy first-mover advantages (FMAs; Lieberman and Mont-

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gomery 1988); these include learning or experience curve effects, the preemption of scarce input factors, the selection of favorable geographic locations, and the development of buyer switching costs. The net result of these advantages is that “for mature consumer and industrial goods, market pioneers have sustainable market share advantages versus later entrants” (Kalyanaram, Robinson, and Urban 1995, p. 214).

Empirical generalizations about early entrants have been based almost exclusively on studies of manufacturing firms introducing consumer goods products in developed markets. “Broadening the domain of application is important because the established empirical generalizations rely heavily on North American manufactured goods.... Thus, research is still needed on pioneer market share advantages for services, retailers, and in emerging markets” (Kalyanaram, Robinson, and Urban 1995, p. 218). This is especially important considering the perception among researchers and managers. Song, Di Benedetto, and Zhao (1999) indicate that as a result of service firm characteristics—such as low capital intensity, lack of a steep experience curve, and inability of service pioneers to develop a differentiation advantage—service firm managers believe that the relationship between early entry and superior firm performance is much smaller for service firms than for manufacturing firms. In addition, developing markets are characterized by resource scarcity, weak or unstable demand, deficiencies in terms of institutions and infrastructure, and inadequately trained workers, all of which pose significant challenges for firms from industrialized countries (Nakata and Sivakumar 1997). In general, these factors indicate that in service industries, entry timing may not significantly influence performance, and in environmentally turbulent (i.e., developing) markets, firms might even benefit from late entry into the market. These indications warrant a better understanding of the relationship between entry order and performance of service firms in developing countries.

Thus, our objective in this study is to examine whether FMAs exist for service firms entering developing markets. Despite perceptions among researchers and practitioners that FMAs do not carry over to service firms (Song, Di Benedetto, and Zhao 1999), a literature review uncovered no studies that offer empirical evidence to verify the accuracy of these perceptions. Moreover, developing markets provide an important context in which to examine FMAs among service firms. Given the saturation of developed markets, developing markets currently represent the areas of

highest economic growth, though they also present unique business environment challenges that may require strategies different from those employed in developed markets (Baack and Boggs 2008; Lenartowicz and Balasubramanian 2009).

Contrary to current perceptions, we posit that FMAs extend to service firms in developing markets. Consistent with previous work examining the internationalization of service firms (Seggie and Griffith 2008), we ground our framework in a resource-advantage theory of competition (Hunt 2000, 2001, 2002; Hunt and Morgan 1995, 1996, 1997), from which we develop a theoretical model that enumerates the means by which early entry is related positively to sustainable competitive advantage. Hunt and Morgan’s (1995, 1996, 1997) resource-advantage theory draws on the resource-based view (Barney 1991; Wernerfelt 1984) and suggests that a firm generates a sustainable competitive advantage through its bundle of resources. By combining unique and inimitable resources, firms can sustain competitive advantages, which should result in superior market and financial performance (Varadarajan, Yadav, and Shankar 2008). Hunt and Morgan (1995) delineate seven kinds of resources: financial, physical, legal, human, organizational, informational, and relational. We posit that for professional service firms, the ability to generate a sustainable competitive advantage through human capital is particularly relevant. In addition, we delineate the role of financial, physical, organizational, informational, and relational capital (Hunt 2000) in the development of FMAs and as moderators of the relationship between entry order and firm performance. Specifically, we examine the moderating effect of firm size, international experience, and ownership structure as indicators of these resources.

We base our empirical analysis on 379 advertising subsidiaries spanning 43 different developing markets in Eastern Europe, Asia, the Middle East, Africa, and Latin America. Consistent with resource-advantage theory, which suggests that the environment influences firm conduct and performance (Hunt and Morgan 1995), we also examine whether the degree of host-market economic development moderates the entry order–performance relationship. The International Monetary Fund (2007) classifies all but the world’s 30 most advanced economies as “other emerging and developing countries”; we focus on these countries while recognizing that there are large differences in the degree of economic development in this group. For simplicity, we refer to this group of countries as “developing.”

This study has important implications for both research and managerial practice. Systematic empirical research on service firms' internationalization process has remained limited (Javalgi, Griffith, and White 2004), despite recent calls in the literature (Javalgi and White 2007; Sanchez-Peinado, Pla-Barber, and Hébert 2007). Thus, there is a great need to examine and extend theories developed in a manufacturing context to benefit service firms. For service firm managers, this study examines a commonly held but unverified and potentially flawed assumption and provides a guideline to aid firms' decision of when to enter a new developing market as well as guidance as to how they can alleviate late-mover disadvantages.

LITERATURE REVIEW AND HYPOTHESES

A long history of research supports the idea that early entrants into a new market enjoy advantages that later entrants do not. Typically, these advantages enable the early entrant to achieve better market performance than followers (e.g., Kalyanaram, Robinson, and Urban 1995; Suarez and Lanzolla 2007). Robinson and Fornell (1985) find that the correlation between order of entry and market share is almost as strong as that between market share and return on investment, and Urban and colleagues (1986, p. 655) conclude that there exists a "significant market share penalty for later entrants."

Theoretical reasoning supporting FMAs has come from a variety of sources. For example, Lieberman (1987) and Porter (1980) emphasize the economic competitive advantages by focusing on the early entrant's ability to enjoy economies of scale, experience curve effects, and gain asymmetries in marketing costs. In addition, FMAs can be the result of strategic competitive advantages through the preemption of input factors—such as favorable geographic locations, consumer perceptual space, and political resources—which prevent later entrants from gaining access to suppliers, markets, and customers (Frynas, Mellahi, and Pigman 2006; Lieberman 1987; Porter 1980). From a technological viewpoint, early entrants can gain a competitive advantage by setting technology standards, securing patent rights, and leading in research and development (Pan, Li, and Tse 1999). Finally, researchers have also attributed behavioral factors to early-mover competitive advantages. Customer preference and loyalty are higher for early entrants (Carpenter and Nakamoto 1989), and early entrants gain a differential advantage through asymmetries in switching costs, brand image, and reputation (Lieberman and Montgomery 1988).

Though relatively limited, a few studies have extended this reasoning into emerging markets. Cui and Lui (2005), Isobe, Makino, and Montgomery (2000), and Pan, Li, and Tse (1999) examine early manufacturing entrants into China and find that they outperform later entrants.

In contrast, research on FMAs among service firms has been sparse. Exceptions include Ang and Zhang (2006) and Tufano (1989), who find that being a first mover in financial service innovations could result in cost advantages, and Boyd and Bresser (2008), who find evidence of FMAs in the U.S. retail industry. Despite such findings, common wisdom holds that being a first mover is less important for service firms (Song, Di Benedetto, and Zhao 1999).

Order-of-Entry Effects for Service Firms in Developing Markets

Services possess varying degrees of imperishability, inseparability, intangibility, and heterogeneity that are distinct from manufactured goods (Boddewyn, Halbrich, and Perry 1986). As a result, global strategies for service firms often differ from those for manufacturing firms (Javalgi and Martin 2007; Lovelock 1999). Given the distinction between services and manufacturing firms, some of the reasons for FMAs among manufacturing firms have limited applicability to service firms. In particular, learning curve effects and economies of scale are not as attainable for service firms (Lovelock and Yip 1996). In addition, intellectual property protection through patent rights has been advanced as an important reason for FMAs among manufacturing firms, but patent protection is more difficult to attain for service firms (Terrill 1992). Combined, these factors can explain why, overall, managers perceive FMAs as less evident for service firms (Song, Di Benedetto, and Zhao 1999).

Despite differences in the nature of services and manufacturing industries, we propose that entry order has a significant relationship to firm performance for service firms in developing markets. To better understand this break from managers' current perceptions, we rely on resource-advantage theory to advance our argument (Hunt and Morgan 1995). Resource-advantage theory suggests that the possession and deployment of the appropriate combination of resources (i.e., a comparative resource advantage) can lead to a competitive advantage, based on the assumption that firm resources are heterogeneous and imperfectly mobile (Hunt and

Morgan 1995). We posit that sustained competitive advantage for early-entrant service firms can be explained by the firm's ability to generate resource advantages in human, relational, informational, and organizational capital. However, contextual factors that are more specific to professional service firms and developing markets (e.g., the strategic motivation for market entry, limited competitive rivalry immediately following early entry) create the environment in which service firms can achieve resource advantages. We first discuss these contextual factors, and then we indicate the specific firm resource advantages.

Contextual Factors. In general, it is held that the strategic motivations driving the internationalization of service firms are different from those of manufacturing firms. Rather than simply being motivated to exploit new markets, service firms' international expansion is often driven by a need to follow current clients into new markets (Bouquet, Hebert, and Delios 2004; Weinstein 1977), which subsequently tends to shift toward a market-seeking approach and efforts to serve local customers (Lommelen and Matthyssens 2004). By following a client into a new market, the early entrant has the advantage of having existing demand for its services immediately on entry. These clients also may generate legitimacy in the local market and enable the firm to gain additional clients quickly. Therefore, the client-following strategy characteristic of professional service firms entering developing markets supports the achievement of FMAs.

In addition, early entrants have an opportunity to erect entry barriers during the period of limited competition immediately following entry. As an early entrant, the firm faces limited competitive pressure because, for a period of time, a temporary monopoly exists with only limited competitive rivalry, because competing firms enter the market at a slower pace (Huff and Robinson 1994). During this time of limited competitive pressure, service firms can develop *ex post* limits to competition as they shape customer preferences (Carpenter and Nakamoto 1989) and establish customer loyalty (Alpert and Kamins 1995), which serve as barriers to entry for follower firms. In addition, *ex post* limits to competition established by developing market host-country governments prolong the period of limited competition that favors early entrants. Host-country restrictions have been identified as one of the most significant problems facing professional service firms' internationalization efforts (Reardon, Erramilli, and D'Souza 1996). Developing market governments have been known to

erect entry barriers that restrict the expansion of foreign multinational corporations (Javalgi and White 2002) in an effort to protect domestic firms by limiting the access of new foreign entrants. Under such circumstances, the advantages of a firm having already established operations, while competitors are forced to wait for future opportunities, seem particularly evident and pronounced. In addition to restricting foreign direct investment inflows, developing market governments also have shown a willingness to dictate operating terms, such as the business location and structure (Zimmerman 1999). Thus, early entrants can benefit from the entry and operational barriers erected during the period of limited competitive rivalry.

Resource Advantages. Considering the nature of service firms and the developing market environment, we can explicate the relationship between early entry and resource advantage. We posit that sustained competitive advantage as a result of early entry into developing markets can be explained by the early entrant's ability to generate competitive resource advantages. Professional service firms often provide value in the form of information and advice through the selection, development, and use of human capital (Hitt et al. 2001). Thus, we emphasize the importance of human capital but also note the ability of firms to use an early-entry strategy to establish and leverage relational, informational, and organizational resources.

Human capital refers to the skills and knowledge of a firm's employees (Hunt 2000; Hunt and Morgan 1995). Professional service firms use human capital, embodied by their employees' accrued experience and knowledge (Griffith and Lusch 2007), to provide services representing intangible products (Hitt et al. 2001). Therefore, the preemption of host-country human resources, through acquisition of talent and establishment of influential local contacts, is especially important for success in service industries, and early entrants have an advantage at securing the best local human resources (Frynas, Mellahi, and Pigman 2006). This is particularly relevant in developing markets, which are also more likely to suffer from scarcity in human resources, resulting in a limited pool of skilled talent. Ready, Hill, and Conger (2008, p. 64) highlight this talent shortage, noting that the BRIC (Brazil, Russia, India, and China) countries and other developing markets "are growing by compounded rates of as much as 40%, and finding talent to keep up with that growth is extraordinarily challenging." Thus, the preemption of host-country human capital results in a comparative resource advantage for early entrants.

Furthermore, an early entrant may leverage its human capital advantage to develop comparative relational, informational, and organizational resource advantages. Relational capital is not owned by the firm but refers to “the joint benefits embedded in a relationship between two or more parties” (Hitt et al. 2006, p. 1138). For internationalizing professional service firms in developing markets, building successful relationships with both clients and government agencies is imperative (Cooper et al. 2000). As advertising agencies interact with their clients, they build a greater understanding of client needs. The added knowledge of a client’s business and customer needs enables the firm to customize its service for the client (Hitt et al. 2006). Similarly, government relationships also are viewed as a critical resource for the success of international service firms (Griffith and Harvey 2004). Government relationships can be considered a firm resource if the firm can leverage its relationships with government agencies to enhance its operations or to generate new business (Griffith and Harvey 2004).

Informational and organizational capital, similar to human and relational capital, is embedded in the firm’s employees. Informational capital refers to knowledge about market segments, customers, competitors, and technology; organizational capital refers to a firm’s controls, routines, cultures, and competences (Hunt 2000). The heterogeneity and asymmetrical distribution of informational and organizational capital stem from historical differences in firms with respect to investments in these types of capital (Hunt 2000). As a function of entry timing, early entrants have more time to develop informational and organizational resource advantages in a specific developing market than later entrants. The unique business environment challenges associated with developing markets—such as resource scarcity, weak or unstable demand, deficiencies in terms of institutions and infrastructure, and inadequately trained workers (Nakata and Sivakumar 1997)—suggest that a historical advantage in the development of informational and organizational capital positively contributes to a firm’s competitive advantage. Furthermore, these resource advantages are firm specific, heterogeneous, and imperfectly mobile (Hunt 2000), which suggests that later entrants may be unable to overcome the edge early entrants have in developing these resource advantages.

In summary, although extant literature suggests that FMAs are less prevalent for service firms, especially because of the lack of a steep experience curve, we hypothesize the contrary. Given the nature of service

firm internationalization and the period of limited competitive rivalry, early-entrant service firms have the opportunity to develop comparative resource advantages in human, relational, informational, and organizational capital. Thus, early-entrant service firms in developing markets should realize FMAs.

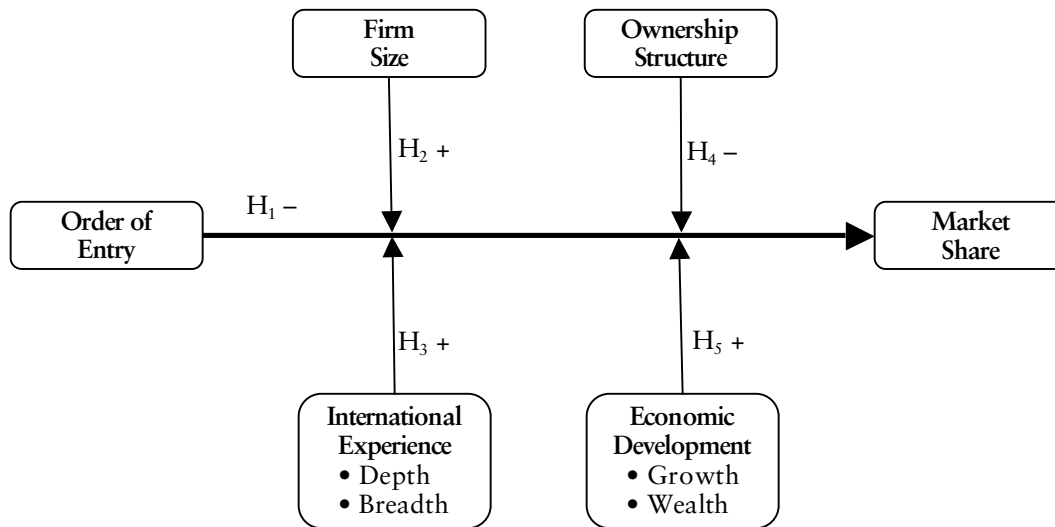
H₁: Multinational service firms that are early entrants into developing markets have greater long-term market share than later entrants.

Moderating Factors

Accompanying our main-effect hypothesis, we propose several contingencies that serve as potential moderators of the relationship between entry order and firm performance. We continue to draw on resource-advantage theory and examine the mitigating effect of three firm factors: (1) firm size, (2) international experience, and (3) ownership structure. In addition, we examine the role of the environment by investigating whether the degree of economic development affects the entry order–performance relationship. Examining these moderating effects gives a better understanding of the firm-, location-, and situation-specific factors that influence the entry order–performance relationship. This is valuable for two reasons. First, Suarez and Lanzolla (2007) suggest that to advance the understanding of entry-order effects, the interplay between the environment and entry order deserves additional attention, which seems particularly relevant given the unique environment in developing markets. Second, theoretically, to enhance the understanding of resource-advantage theory, we need to be able to specify the contexts in which a firm is able to develop a specific resource into a competitive advantage. Finally, armed with a better understanding of how to enhance or negate the relationship between entry order and performance, managers will be better prepared to evaluate new market opportunities. Figure 1 presents a graphic depiction of the conceptual framework.

Firm Size. Firm size is an important indicator of many resources that aid the internationalization process for service firms (Javalgi, Griffith, and White 2003). In general, large firms have an advantage in financial, physical, and relational resources (Ekeledo and Sivakumar 2004). These resources may be used to reduce late entrants’ late-mover disadvantages. As a consequence of their financial and relational advantages, large firms are often better able to secure political resources (Frynas, Mellahi, and Pigman 2006), which can prove advantageous in develop-

Figure 1. Conceptual Framework



ing markets. A financial and physical resource advantage enables firms to invest greater resources into research and development and be more innovative (Arvanitis 2008). In addition, firm size has been linked with speed of entry and size of foreign market entry into developing markets, implying that a more aggressive expansion strategy may be possible and even typical for large firms (Gielens and Dekimpe 2007). These arguments indicate that large late entrants may be able to decrease or negate the inherent late-entry disadvantages. In the manufacturing sector, Cui and Lui (2005) discuss the example of General Motors in China, which through its then-abundant firm resources combated late-mover disadvantages by making substantial financial investments and introducing state-of-the-art technologies and business practices. Similarly, we would expect that the financial, physical, and relational resource advantages associated with larger firm size would help professional service firms overcome late-mover disadvantages.

H_2 : Firm size positively moderates the relationship between order entry and market share.

International Experience. Developing markets are high-risk markets fraught with a high degree of uncertainty (London and Hart 2004). We posit that international experience can serve as an indicator of a firm's competitive advantage in human, relational, and organizational

capital. International experience provides a firm with human capital through its managers, who have gained valuable tacit knowledge that would be difficult to attain elsewhere. Part of the cost of operating a foreign subsidiary is the time and effort it takes to familiarize the firm with the local culture and way of conducting business (Hill and Kim 1988). Firms with previous international experience may draw on this past experience, which suggests that familiarization with a new market can be undertaken more efficiently by multinational enterprises (MNEs) that have already expanded into other international markets (Evans, Mavondo, and Bridson 2008). International experience might better prepare the firm not only to recognize new market challenges and opportunities but also to draw on its experience to deal with them effectively. Thus, we expect that a human capital resource advantage generated by international experience serves as an asset to the firm, enabling late entrants to decrease or negate late-mover disadvantages.

International experience is also associated with organizational capital. Organizational capital refers to a firm's policies, routines, and competences (Hunt 2000). We posit that international experience generates organizational capital in the form of learning capabilities and organizational processes to adapt to new cultures. Developing markets are characterized by large institu-

tional differences compared with the entering firm's developed home market. Kostova (1999) argues that it is more difficult to transfer knowledge and organizational best practices to institutionally distant markets. However, a firm with greater international experience is likely to be present in a variety of institutional contexts. Therefore, a firm's entry into an additional country is likely to be less institutionally distant from the set of countries in which it already has operations (Mitra and Golder 2002). Thus, we expect that a high level of international experience enables a faster transfer of knowledge and organizational best practices among the various subsidiary units, which, again, suggests that international experience can help a late entrant reduce late-mover disadvantages.

Finally, international experience also is associated with relational resource advantages. One reason late-entering manufacturing firms suffer lower performance is their inability to develop customer relationships (Pan, Li, and Tse 1999). A potential competitive advantage for a professional service firm is its ability to service clients through a broad, global network (Varadarajan, Yadav, and Shankar 2008). A firm with a high level of international experience is more likely to have a highly developed, global network, which would enable the late entrant to be perceived more favorably and to reduce its late-mover disadvantage. Late entrants with a high level of international experience also may leverage relationships developed in other international markets or neighboring countries to earn favorable status with suppliers, customers, and governments in the new foreign market. Thus, we posit that international experience can generate valuable and inimitable resource advantages in human, organizational, and relational capital, which suggests a moderating effect on the entry order–firm performance relationship.

H₃: International experience positively moderates the relationship between order of entry and market share.

Ownership Structure. As discussed previously, developing markets present prospective firms with high levels of uncertainty and risk. We suggested that one way to reduce this uncertainty is through international experience. Another way firms can mitigate their foreignness liability is through a local partner's help. By entering a new market with the help of a local partner, the firm can “acquire” resource advantages in the form of human, relational, informational, and physical capital. A lack of local market knowledge and understanding of host-

government policies suggests that foreign entrants must go through a process of familiarization to learn about the local market and culture. This lack of local market knowledge has long been recognized as a crucial obstacle to expanding into foreign markets (Johanson and Vahlne 1977; Zaheer 1995). Local partners may be a source for overcoming this obstacle; they give foreign MNEs valuable local market knowledge and capabilities and a human competitive advantage, lowering later entrants' risk and enabling them to recover ground lost to earlier entrants.

By teaming up with a local partner, the late entrant may negate the first mover's locational advantages and prevent the preemption of input factors. Local partners, though likely to be small and resource poor (Wilson and Amine 2009), still may have advantageous locations and a developed logistics network, which suggests a physical competitive advantage. A local partner also may have a long-established history with the local customer base, much longer than the first foreign entrant, whereby it can develop or sustain strong consumer loyalty, a relational and informational competitive advantage.

Finally, parent firms with a high degree of equity ownership have shown a desire to have a significant influence over the selection of senior management appointees of the subsidiary so that its managers identify closely with the goals of the MNE (Gaur and Lu 2007). However, this selection process may not enhance performance. Indeed, Xu and Shenkar (2002) argue that it is more important for the entering firm to meet the demands of the local environment, which can be accomplished best through a high level of local involvement, than for it to be internally consistent with the parent firm. Thus, we suggest that subsidiary ownership structure moderates the entry order–performance relationship:

H₄: Majority ownership negatively moderates the relationship between order of entry and market share.

The Role of the Environment

Resource-advantage theory suggests that the environment in which firms operate influences firm conduct and performance (Hunt and Morgan 1995). One aspect of the environment relevant to developing markets is the host country's degree and rate of economic development. The International Monetary Fund's (2007) classification of countries considers Western Europe, the United States, Canada, Australia, New Zealand, Japan,

Singapore, South Korea, and Hong Kong advanced economies and the rest of the world “emerging or developing.” Yet there are significant differences in the degree and rate of economic development within the emerging or developing group (Luo and Tung 2007; UNCTAD 2007). Previous research examining the entry order–performance relationship among manufacturing firms in developing markets has focused exclusively on a single market, China (e.g., Cui and Lui 2005; Pan, Li, and Tse 1999); therefore, examining the moderating effect of differences in economic development across multiple developing markets is a heretofore unexplored context.

We expect that a rapidly growing market, indicated by the rate of gross domestic product (GDP) growth, and a more developed market, indicated by greater individual wealth (per capita GDP), weaken the entry order–performance relationship for service firms. Rapid growth in developing markets often is accompanied by uncertainty and volatility (e.g., changing economic institutions or regulations), increasing the risk of a favorable business environment suddenly turning unfavorable and allowing the opportunity for later entrants to potentially succeed. Therefore, rapid-growth markets may not be as conducive to FMAs as slower-growth markets. Furthermore, rapid growth is often driven by strong market demand. In turn, this strong demand attracts new foreign competitors and shortens the period of limited competitive rivalry (Terpstra and Yu 1988). One source of strong market demand would be individual wealth (i.e., per capita GDP) in the host market. Thus, the lure of pent-up demand and growing individual wealth in a developing market ultimately create an intensely competitive environment, making it more difficult for early entrants to achieve FMAs. Slower-growth markets and markets with lower individual wealth do not attract as many competitors, thus enabling early entrants to erect entry barriers and benefit from FMAs.

Although prior empirical evidence is scant, support for the role of rapid growth has been observed at the industry level. Cui and Lui (2005) find that in industries characterized by rapid growth, late followers have an advantage in terms of market share and early followers have an advantage over pioneers in terms of profitability. This evidence from a different level of analysis reinforces the argument that rapid growth provides substantial opportunities for later entrants, which can negate the advantage of being an early entrant.

We acknowledge that a competing line of reasoning also exists. Nakata and Sivakumar (1997, p. 464) argue that

rapid growth enhances FMAs, suggesting that “for pioneers, it means that once a foothold is gained, their sales will increase over time, even if they maintain their original shares due to the overall growth of the market.... First movers will benefit from improving economies of scale as production rises to meet demand.” Nakata and Sivakumar (1997) advance similar arguments for individual wealth, suggesting that a wealthy and growing middle class leads to increased sales for first movers and, thus, scale economies. Although their arguments are reasonable, their propositions remain empirically unsubstantiated, and we contend that they do not account for the impact of rapid growth and individual wealth on market attractiveness and its ability to create a more competitive environment by attracting other competitors. Their arguments for FMAs also assume a manufacturing environment, in which economies of scale act as a primary source of FMAs. We suggest that the source of FMAs for service firms is more dependent on human, relational, informational, and organizational resource advantages than on economies of scale. Thus, we aim to empirically validate the hypothesis that the degree of economic development, captured by the rate of growth and individual wealth, serves to limit early entrants’ ability to develop FMAs.

H₅: (a) Rate of economic development and (b) per capita wealth positively moderate the relationship between order of entry and market share.

METHOD

Sample

To test the hypotheses presented in the preceding section, we relied on a database of the international operations of major advertising agencies. We chose the advertising industry as a focal industry because of its high level of internationalization, with foreign subsidiaries in a large number of developing markets, and for its distinctiveness as a knowledge-intensive service industry. A single-industry focus is consistent with extant research that holds that a one-industry analysis may be more useful than a compilation of service firms from multiple sectors because of the heterogeneity of service firms (Kirca 2005). By creating a longitudinal database from *Advertising Age’s* annual survey of advertising agencies’ international operations, we examined 379 subsidiaries in 43 developing markets from Eastern Europe, Asia, the Middle East, Africa, and Latin America. (Table 1 lists all the countries.) The database includes subsidiary entries into each market beginning in 1986 and the rela-

Table 1. List of Developing Markets Included in Sample

Asia	Eastern Europe	Middle East and Africa	Latin America
1. Bangladesh	5. Bosnia and Herzegovina	21. Bahrain	39. Bolivia
2. China	6. Bulgaria	22. Egypt	40. El Salvador
3. Kazakhstan	7. Croatia	23. Ghana	41. Honduras
4. Vietnam	8. Czech Republic	24. Ivory Coast	42. Nicaragua
	9. Estonia	25. Kenya	43. Paraguay
	10. Hungary	26. Kuwait	
	11. Latvia	27. Lebanon	
	12. Lithuania	28. Morocco	
	13. Macedonia	29. Mozambique	
	14. Poland	30. Namibia	
	15. Romania	31. Nigeria	
	16. Russia	32. Saudi Arabia	
	17. Serbia	33. Syria	
	18. Slovakia	34. Tanzania	
	19. Slovenia	35. Tunisia	
	20. Ukraine	36. Uganda	
		37. United Arab Emirates	
		38. Zambia	

tive market share of each subsidiary measured in 2001. By tracking each market in all volumes of the report, we were able to gather information on the exact entry order of all subsidiaries. Although the database includes subsidiary information from more than 100 different markets, all developed and many developing markets (e.g., Brazil, Argentina, Thailand, India) were already populated by multiple MNE subsidiaries before 1986. Thus, we were unable to determine the exact entry order in these markets, and we excluded them from the analysis.

Golder and Tellis (1993) warn that studies examining FMAs may be subject to survivor bias. This is present when a large number of pioneers that are unaccounted for fail and exit the market, thus potentially inflating the actual benefits of being an early entrant. In contrast, Robinson and Min (2002) find that survival rates are actually higher for pioneers than for later entrants and view the higher survival rates of pioneers as further evidence of FMAs. VanderWerf and Mahon's (1997) meta-analysis indicates that there is no difference in the significance level of the entry order–performance relationship between studies that included nonsurvivors and studies in which nonsurvivors were not controlled for, providing cumulative evidence that survivor bias may

not affect FMA studies. In our sample, we identified nine pioneers that exited before 2001; however, we also identified 68 subsidiaries that were later entrants that also exited before 2001, which seems more consistent with the scenarios Robinson and Min (2002) and VanderWerf and Mahon (1997) describe than with Golder and Tellis's (1993) “first-to-market-first-to-fail” scenario. Accordingly, given the low percentage of first entrants that exited before 2001 and that many later entrants also exited before 2001, we concluded that survivor bias did not pose a serious threat to the study.

Variables

The dependent variable in our study is market share, the most common performance variable used in the first-mover literature (VanderWerf and Mahon 1997; Varadarajan, Yadav, and Shankar 2008). Market share is a particularly good performance indicator for studies that compare multiple international markets because it is less affected than many other measures (e.g., return on assets, return on investment) by international issues, such as currency volatility and transfer pricing. We measured market share in 2001, the final year of the data set, 15 years after the first possible

entry. This lag provides a good test of whether being an early entrant leads to a sustainable long-term advantage. We operationalized market share of a firm's revenue as a percentage of all the foreign advertising subsidiaries' revenues in each market in 2001. Because the database does not include information on local advertising agencies, each firm's market share may be slightly exaggerated compared with a measure that includes domestic competition. However, there is also evidence that some developing markets (e.g., Hungary) had only a modest advertising industry before their market opened to foreign investment from major multinational agencies (Wilson and Amine 2009). Regardless, the relative order would remain the same, and thus it still allows for a rigorous test of the theoretical framework. We log-transformed market share to correct for non-normality.

Consistent with Pan, Li, and Tse (1999), we measured the effect of entry order as the lapse of time between the entry of the first firm in a particular market and the entry of a given firm. The lapse of time is in number of years after the first entrant. Firms that entered in the first year in a given market were coded as 0, firms that entered the following year were coded as 1, and so on. We measured firm size by the total amount of worldwide revenues. Consistent with prior research, we empirically examined international experience from

both depth and breadth perspectives (Magnusson and Boggs 2006). We conceptualized depth of international experience as the amount of time a firm had been involved internationally and measured it as the number of years since the firm opened its first international office. We conceptualized the breadth dimension as the amount of foreign markets in which a firm had experience, which is measured as the number of countries in which the firm has foreign subsidiaries at the beginning of the sample time frame (Evans, Mavondo, and Bridson 2008; Magnusson and Boggs 2006). We defined majority ownership in the data set as any subsidiary with greater than 50% equity ownership by the parent firm. This distinction between majority and minority ownership is consistent with Anderson and Gatignon's (1986) conceptualization of high-control versus low-control structures. Finally, we drew the measures for each market's economic development from *Euromonitor International's Global Market Information Database*. This database provides year-by-year national statistics. We averaged each market's real GDP growth rate and GDP per capita during the sample time frame. Table 2 presents descriptive statistics and construct correlations.

Hierarchical Linear Modeling

Because the variables in the data set occur at different levels, we chose to use hierarchical linear modeling (HLM)

Table 2. Means, Standard Deviations, and Construct Correlations

	M	SD	1	2	3	4	5	6	7	8
1. Subsidiary performance	.11	.13	1							
2. Lag	4.60	4.05	-.28*	1						
3. Ownership mode	.40	.49	-.14*	-.07	1					
4. Firm size	3183.34	2470.57	—	—	—	1				
5. International experience breadth	24.80	17.66	—	—	—	.51*	1			
6. International experience depth	1961.88	21.86	—	—	—	.35	.57*	1		
7. GDP growth	2.78	3.20	—	—	—	—	—	—	1	
8. GDP per capita	5449.53	4719.06	—	—	—	—	—	—	-.10	1

* $p < .01$.

Notes: Correlations are only available for constructs measured at the same level; subsidiary-level variables: $n = 379$; firm-level variables: $n = 25$; country-level variables: $n = 43$.

for the method of analysis. We measured the dependent variable, subsidiary market share, and the independent variables, subsidiary entry order and ownership structure, at the individual subsidiary level, whereas the firm headquarters variables (international experience and firm size) and the effect of economic development are nested higher-order variables; therefore, our hypothesis testing necessitated hierarchical or cross-level techniques (Raudenbush and Bryk 2002; Snijders and Bosker 2003). Our conceptual model hypothesizes that the relationship between entry order and subsidiary performance is moderated by both firm-level variables (international experience and firm size) and market-level variables (economic growth and wealth). Thus, our model is a two-level cross-classified random-effects model, in which lower-

level units are cross-classified by two higher-level units (Raudenbush and Bryk 2002).

The use of HLM addresses many concerns associated with multilevel analysis; however, considering that our two-level variables have modest sample sizes, our analysis may be subject to low power. The 379 subsidiaries belong to 25 advertising agencies, described in Table 3, and the sample size for the economic development variables is 43 markets. Small two-level sample sizes are potentially subject to Type II error because they lack the power to detect all but strong effect sizes (Snijders and Bosker 2003), a particular concern given our interest in detecting moderating effects (Aguinis and Stone-Romero 1997). Thus, because of limited two-level sample sizes

Table 3. Advertising Agency Description

Number	Advertising Agency	Home Country	Number of Subsidiaries in Study
1.	Bates	United States	18
2.	BBDO	United States	23
3.	DDB	United States	22
4.	Dentsu	Japan	3
5.	DMB&B	United States	6
6.	Doremus	United States	1
7.	Draft	United States	1
8.	Euro RSCG	France	6
9.	FCB	United States	26
10.	GGK	Switzerland	5
11.	Grey	United States	29
12.	Hakuhodo	Japan	1
13.	Intermarkets	Lebanon	4
14.	JW Thompson	United States	28
15.	Leo Burnett	United States	32
16.	Lintas	United States	13
17.	Lowe	United States	11
18.	McCann	United States	40
19.	Ogilvy & Mather	United States	29
20.	Publicis	France	10
21.	Rapp Collins	United States	3
22.	Saatchi & Saatchi	United Kingdom	30
23.	TBWA	United States	17
24.	TMP	United States	1
25.	Young & Rubicam	United States	20
Total			379

and statistical power, p -values of $p < .10$ are interpreted as significant, as previous studies (Parboteeah, Hoegl, and Cullen 2008) have suggested.

RESULTS

Table 4 reports the results of the analysis conducted with HLM 6 on the effects of entry order on market share in a three-step hierarchical analysis. Model 1 includes only the main effect of lag time, and as predicted, there is a significant, negative relationship. Model 2 adds the main effect of all independent vari-

ables. Lag time remains significant, and we also find a positive main effect for breadth of international experience and a negative effect of ownership structure. We evaluate the hypothesized framework in Model 3, which adds the interaction effects. In support of H_1 , lag time is significantly, negatively related to market share ($\beta = -.20$, $p < .01$). We must reject H_2 because firm size does not have a significant moderating effect ($\beta = -.00$, $p > .10$). H_3 examines the moderating effect of international experience. Breadth of international experience has a significant main effect ($\beta = .02$, $p < .05$) and a significant moderating effect on the relationship between entry order and firm performance ($\beta = .01$, $p < .10$). In con-

Table 4. The Effect of Entry Order on Market Share

Variables	Model 1		Model 2		Model 3		Hypotheses Test
	B	SE	B	SE	B	SE	
Constant	-.59†	(.13)	-.68†	(.11)	-.64†	(.10)	
Entry order lag	-.20†	(.05)	-.19†	(.05)	-.20***	(.07)	H_1 : S
Firm size			.00	(.00)	.00	(.00)	
International experience depth			.00	(.00)	.00	(.00)	
International experience breadth			.03**	(.00)	.02**	(.01)	
Majority ownership			-.16**	(.10)	-.24**	(.11)	
GDP growth			.03	(.05)	.07*	(.05)	
GDP per capita			.04	(.05)	.04	(.05)	
Lag × firm size					-.00	(.00)	H_2 : NS
Lag × international experience depth					.00	(.00)	H_3 : PS
Lag × international experience breadth					.01*	(.01)	
Lag × majority ownership					-.18**	(.11)	H_4 : S
Lag × GDP growth					.12**	(.05)	H_{5a} : S
Lag × GDP per capita					.02	(.05)	H_{5b} : NS
Model fit							
Deviance statistic (χ^2 difference)	15.11†		17.23***		15.93***		
	(d.f. = 1)		(d.f. = 6)		(d.f. = 6)		
AIC	1030.93		1025.71		1021.78		

* $p < .10$.

** $p < .05$.

*** $p < .01$.

† $p < .001$ (one-tailed).

Notes: AIC = Akaike's information criterion. S = supported, NS = not supported, and PS = partially supported.

trast, depth of international experience is not significant ($\beta = .00, p > .10$). Thus, H_3 is supported in terms of breadth but not depth of international experience. H_4 investigates the effect of ownership structure. The main effect is significant ($\beta = -.24, p < .05$), which suggests that subsidiaries with lower percentages of MNE ownership perform better. Furthermore, the interaction with entry order is also significant ($\beta = -.18, p < .05$), suggesting that late entrants that enter with lower ownership equity are able to negate some late-mover disadvantages. H_5 examined whether a developing market's degree of economic development moderates the relationship between entry order and market share. In support of H_{5a} , we find a significant moderating effect for rate of economic development (GDP growth) ($\beta = .12, p < .05$). However, we must reject H_{5b} because we find no evidence of a moderating effect of personal income (GDP per capita) ($\beta = .02, p > .10$). Finally, we assess overall model fit with two statistics. First, we use the deviance statistic to compare model improvement from one model to another. The chi-square difference tests suggest that each model is a significant improvement over the previous model. Second, Akaike's information criterion (AIC) is similar, though it is a more conservative test in that it penalizes models with additional parameters. A smaller AIC score indicates better model fit, and Model 3 has the lowest AIC score. Overall, the model fit assessments lend further support for the conceptual framework.

Figure 2 presents graphs of all significant interactions to further aid in the interpretation of the significant moderating effects.¹ The significant, negative main effect is evident in all figures. However, the steepness of the slopes shows the moderating effects. As Figure 2, Panel A, shows, the nearly flat line suggests that late-mover disadvantages are less problematic for entrants with a high degree of breadth of international experience. In contrast, for firms with limited breadth of international experience, there is a strong negative effect for being a late entrant. Similarly, the negative effects are more severe for later entrants entering with majority ownership than for firms establishing new subsidiaries with the help of a local partner, as Figure 2, Panel B, shows. Figure 2, Panel C, depicts the moderating effect of GDP growth. In high-growth markets, the penalty for being a late entrant is not as severe as the late-entry penalty in slow-growth markets.

DISCUSSION

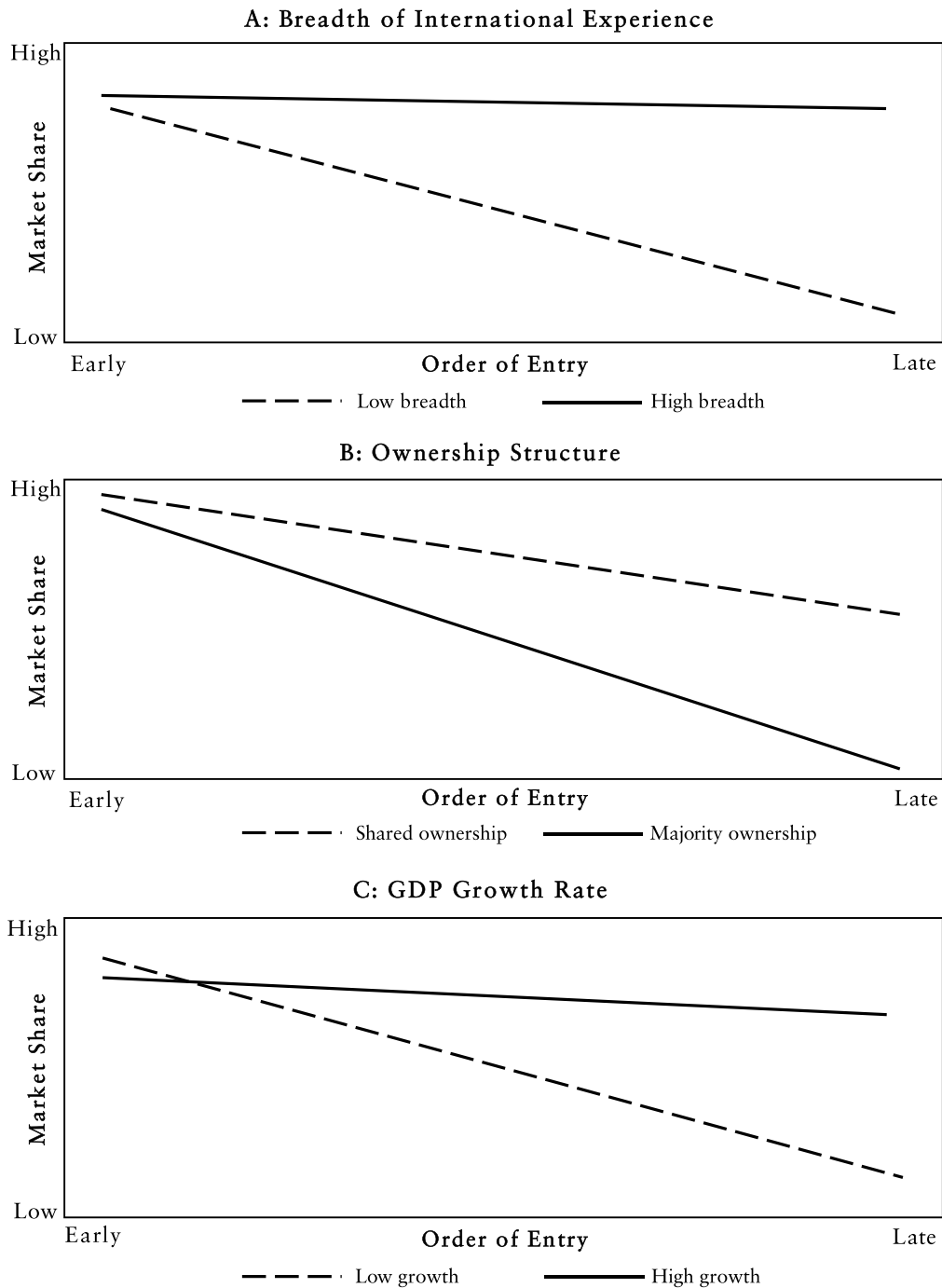
Several distinct findings emerge from this study that contribute to the literature on FMAs, enhance the

understanding of resource-advantage theory, and aid service firm managers in the internationalization process. Although empirical evidence has been lacking, managers have perceived smaller FMAs for service firms, largely because of the lack of a steep experience curve (Song, Di Benedetto, and Zhao 1999). This study offers evidence of a significant relationship between entry order and market share, indicating that FMAs are achievable not only in a manufacturing context but also in a service industry context. We attribute this finding, which is grounded in a resource-advantage theory perspective, not only to the advantages the first entrant has in preempting the best local resources, particularly human capital, but also to the development of relational, informational, and organizational resource advantages. Through the preemption of human resources, the development of long-term successful client relationships, and the creation of an organizational structure and culture, early entrants can develop a sustainable competitive advantage. To the best of our knowledge, this is the first study that has examined the effect of entry order on market share in the context of service firms in developing markets. Thus, this research contributes to the international service marketing and FMA literature streams by demonstrating that order of entry is an important predictor of market share for service firms entering developing markets.

Beyond extending the generalizability of FMA theory in terms of research context (i.e., from developed to developing markets and manufactured goods to service industries), this study contributes to the literature by identifying significant boundary conditions. We offer evidence that international experience moderates the relationship between entry order and market share. Firms that apply knowledge and experience acquired from prior international ventures can shorten the learning curve when entering a new foreign market, which helps the late entrant quickly gain market share and reduce the negative effects of being a laggard. Specifically, the results indicate that a high degree of breadth of international experience reduces the negative effects of late entry on market share. This suggests that through a broad network of subsidiaries, international experience can serve as a valuable competitive advantage.

This research also offers evidence that ownership structure affects the entry order–performance relationship. Late entrants using a local partner can negate some of the late-entrant disadvantages. Our findings somewhat contradict previous studies. Pan, Li, and Tse (1999) find

Figure 2. Moderating Effects of International Experience, Ownership Structure, and GDP Growth Rate on the Entry Order-Performance Relationship



that manufacturing firms entering China with wholly owned subsidiaries outperformed contractual joint ventures, and Papyrina (2007) finds that survival rates were higher for firms entering China with wholly owned sub-

sidaries than with joint ventures. In contrast, we find that minority ownership could be superior to majority equity ownership, as both a main effect and a moderator of late-mover disadvantages. This difference may be

because when the Chinese market opened up for foreign investment in 1979, the Chinese government placed restrictions on firms that wanted to invest and demanded local partnerships. Thus, it may not be surprising that in China, when wholly owned subsidiaries were eventually allowed, they outperformed government-forced joint ventures. In addition, Sanchez-Peinado, Pla-Barber, and Hebert (2007) suggest that wholly owned subsidiaries would serve service firms best because they can quickly adapt to competitors' actions and provide global integration, which is inconsistent with our findings. We suggest that this can be explained by the notion that the advertising industry is characterized by a prevailing need for solutions that are at least partially tailored to the local culture (Agrawal 1995). Thus, local market knowledge supplied by a host-country partner would be especially helpful in this context. It also highlights the value of relational and informational capital, and for firms entering new markets, a local partner may be the most efficient way to secure these resources.

Contrary to our expectations, we did not find a significant moderating effect for firm size. From a resource-advantage perspective, firm size is primarily associated with financial and physical advantages. Our findings suggest that for service firms entering developing markets, competitive advantages based on human, relational, and informational capital seem to be more important.

Finally, we examined whether the degree and rate of economic development influence the entry order-performance relationship. Prior literature has advanced the propositions that for manufacturing firms, rapid growth and enhanced economic conditions would strengthen FMAs because firms could generate economies of scale (Nakata and Sivakumar 1997); however, in a service context, because of the potential for increased market volatility and stiffening competition, we posited that greater individual wealth and economic growth would reduce early entrants' ability to generate FMAs. This opposing viewpoint received empirical support in the case of GDP growth rate—that is, stronger FMAs exist in low-growth markets compared with high-growth markets.

Managerial Implications

As noted previously, services are increasing in their share of worldwide trade, and much future economic growth lies in developing markets. Therefore, managers in international service firms may find relevant several implications of this study. Contrary to commonly held

managerial perceptions (Song, Di Benedetto, and Zhao 1999), we found that order-of-entry effects exist for service firms. This is an important extension to current thinking and suggests that continual scanning of markets for entry opportunities is warranted, as is quick action to take advantage of opportunities presented; otherwise, firms will invite the disadvantages of being a late entrant. It is also noteworthy that international experience and ownership mode have a significant main effect on market share. Thus, firms with little international experience are competing at a disadvantage against other entrants that have greater international experience. Similarly, firms that enter developing markets with a local partner outperform those that enter with majority ownership. The salient point is that though this research provides evidence that being early in a developing market is an advantage, other firm-controllable factors also can be important.

For firms that have failed to be the first mover in a particular market, this study provides some valuable guidelines to help managers reduce late-mover disadvantages. Firms may reduce the disadvantage of arriving late to a market through relationships and experience developed internally or secured through partnerships. Specifically, the findings suggest that firm relationships and experience gained from operations in multiple countries (H_3 , breadth) or secured through partners (H_4) serve to reduce the market share disadvantage associated with late market entry. It follows from these findings that managers can benefit from actively seeking and exploiting these internally developed and externally established sources of relationships and experience. Although acquiring international experience is only partly controllable because of its function of time, our finding with regard to ownership structure is actionable for all firms. This suggests that it is particularly important for firms with limited international experience to take advantage of local partners, a strategy also supported by Johanson and Vahlne's (1977) classic gradual internationalization approach.

Limitations and Further Research

This study is subject to limitations that need to be considered but also serve as opportunities for further research. First, although market share is the most commonly used performance measure in studies on order-of-entry effects (VanderWerf and Mahon 1997) and is particularly well suited to studies examining multiple international markets, additional performance measures could provide more robust results. Second, we assumed

that all advertising subsidiaries operate in the same marketspace. This seemed reasonable because all the entrants were major advertising agencies (e.g., Publicis, Saatchi & Saatchi, Young & Rubicam); however, we recognize the possibility of agencies focusing on different marketspaces. Third, from the available information, it does not seem that survivor bias posed a threat to our study; however, because the data were self-reported, it is possible that we did not include some foreign subsidiaries, both successes and failures.

The findings also suggest possible extensions of this research. Although the focus on service firms is an important contribution to the literature, the scope of this study was limited to advertising firms. Replications of this study using additional service industries as well as comparisons of service firms with manufacturing industries to improve the generalizability of our results would be a valuable contribution. Furthermore, it seems that order-of-entry effects are studied from the perspective of market-seeking ventures and rarely, if ever, from a resource-seeking perspective such as global sourcing. A possible issue of interest would be to explore for any differences between firms that are market seeking versus resource seeking or to determine whether the theory extends to resource-seeking firms. Finally, there may be additional contingencies that did not emerge in this study that affect the entry order–performance relationship. For example, further research might explore whether firm-specific advantages, such as firm innovativeness, organizational culture, global strategic posture, and knowledge tacitness, also influence the relationship between entry order and firm performance for professional service firms.

Despite these limitations, this study provides important insight into the effect of entry order on firm performance. We show that entry order has a significant relationship to market share for service firms in developing markets and that this relationship is moderated by the firm's degree of international experience, ownership structure, and the rate of economic development.

NOTE

1. The two-level cross-classified (HCM2) analysis method in HLM 6 does not provide the necessary asymptotic covariance matrix (Preacher, Curran, and Bauer 2006) needed to create the interaction graphs; therefore, we create these graphs using linear regression. The ordinary least squares results largely mimic the HLM results.

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