

Chapter 13

No Strategy is an Island to Itself: China First-Mover and Other FDI Strategies' Interaction Effects

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ABSTRACT

The first-mover strategy for foreign investment is examined to determine under what conditions a significant effect exists when it is combined with other foreign investment strategies like partner selection, geographical market focus, joint-venture control, and resource commitment strategies. Using official audited data and survey data from Sichuan, the results reveal that there are significant interaction effects. The interaction effects can eliminate first-mover advantage, create a first-mover effect that previously didn't exist, or change the direction of the effect. Consequently, the author argues that it is better to analyze strategies as a set that is formed by a series of strategic decisions made by managers as they establish foreign joint ventures and wholly owned subsidiaries.

INTRODUCTION

First-mover advantages have become a foundational principle in strategic management by asserting that those firms that act earlier than their competitors obtain a competitive advantage that results in greater profits (Lieberman

& Montgomery, 1988, 1998). This concept has been applied not only to the introduction of new products, but also in establishing joint ventures and WFO (Wholly Foreign Owned) in foreign markets. The first-mover strategy has been frequently invoked by firms entering post-socialist nations where first-mover advantages have been asserted to be beneficial in obtaining the best local partner, which leads to increased market share

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and profits. This enthusiasm for the first-mover strategy has led researchers to begin to question whether merely being the first to enter a market is in of itself sufficient to produce the desired advantages, or whether it must be combined with specific firm attributes (e.g. Schoenecker & Cooper, 1998), competitors' responses (Ketchen, 2004; Lambkin, 1988), market environments (e.g. Luo & Park, 2001; Gaba, Pan, & Ungson, 2002, Sarkar, Cavusgil, Tamer, & Aulakh, 1999), or other strategies (e.g. Mitchell, 1989; Pan, Li, & Tse, 1999; Zhao & Luo, 2002) to be beneficial.

Despite an increased interest on how the first-mover strategy interacts with other strategies, a systematic examination is needed to determine first-mover effects as it is combined with other foreign investment strategies. This study intends to fill this gap by analyzing how the first-mover strategy interacts with partner selection strategies, geographical market strategies, joint-venture control strategies, and resource commitment strategies across three performance measures. The goal of this analysis is to identify the conditions under which there is a first-mover advantage in foreign investment by examining how the first-mover strategy interacts with other foreign investment strategies.

THEORY AND HYPOTHESES

First-Mover Strategy

First-mover advantages occur when an asymmetry develops between a firm and its competitors due to the firm possessing unique resources, insights, or luck. This asymmetry provides a competitive advantage by which the firm can extract economic profits by a variety of mechanisms such as technology leadership, preemptive control of resources, and buyer switching costs (Boulding & Christen, 2001, Lieberman & Montgomery, 1988). Empirical evidence for first-mover advantages has been found in a number of areas. Ramamurti

(2000), for example, finds that first-movers in the Latin America telecommunications market obtained first-mover advantage because the initial foreign investment in these high risk countries forced the governments to discount state assets at the beginning of privatization. Vanderwerf and Mahon (1997) perform a meta-analysis of studies related to first-mover advantages and find significant positive correlation between first-movers and market share. Additional studies link first-mover advantages to corporate acquisitions (Carow, Heron, & Saxton, 2004) oligopolistic industries (Sarkar, Cavusgil, Tamer, & Aulakh, 1999), the money market mutual fund industry (Makadok, 1998), foreign investment (Isobe, Makino, & Montgomery, 2000), and to investing in developing nations' infrastructure (Doh & Ramamurti, 2003).

The high uncertainty environments of post-socialist and transitional economies such as China are quite different from developed economies, and thus require a re-examination of the first-mover strategy to determine its effects (Ketchen, 2004). In these environments, it has been argued that the weak institutions, poor infrastructure, and underdeveloped markets create barriers to entry for late-movers, and thus result in first-mover advantages that more than offset the additional uncertainty in these environments (Bhattacharyya & Rahman, 2003). First-mover research conducted in China supports this view by finding significant evidence for first-mover advantages. For example, Isobe, Makino, and Montgomery's (2000) study of 220 Sino-Japanese manufacturing subsidiaries found that first-mover firms had a high level of performance where performance was measured by employee turnover, perceived economic performance, and overall satisfaction with the firm. Similarly, Pan, Li, and Tse's (1999) sample of over 14,000 foreign firms also revealed significantly higher market shares and profitability for early entrants, and Luo's (1998) sample of 168 foreign invested light manufacturing firms in Jiangsu province revealed that first-movers

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