ENVIRONMENTAL DYNAMICS AND FIRST-MOVER ADVANTAGES IN EMERGING MARKETS

PETER MAGNUSSON, Northern Illinois University
STANFORD A. WESTJOHN, The University of Toledo
GEOFFREY L. GORDON, Northern Illinois University
TIMOTHY W. AURAND, Northern Illinois University

The study empirically analyzes the conditions under which first-mover advantages are enhanced or impaired for internationalizing service firms in emerging and developing markets. Drawing on the environmental dynamics theory of first-mover advantages (FMA), we posit that unstable and volatile emerging-market conditions hinder early entrants’ ability to develop first-mover advantages. The framework is empirically analyzed using hierarchical linear modeling in the context of the recently opened Eastern European region as well as in the next frontier of Africa and the Middle East. The findings reveal that early entrants outperform later entrants in both geographic regions and the first-mover effect is moderated by environmental dynamics. Specifically, early entry is more likely to lead to sustainable competitive advantage in markets characterized by political stability and limited economic integration.

INTRODUCTION

How important have emerging and developing markets become in the global economy? According to Goldman Sachs, the combined gross national product (GNP) of the 15 leading emerging markets will overtake that of the leading developed economies (G7) by 2024 (Van Agtmael, 2009). General Motors and Coca-Cola have identified Asia, Russia, and Brazil as the regions where the majority of their growth will come from in the next decades (Olsen et al., 2005). Market analysts even suggest that for the first time ever, the recovery from the global recession of 2008 and 2009 is led by emerging market countries, including Brazil, India, and China (Miller, 2009). Effectively, emerging markets have established themselves as the engines of future global growth (Sheth, 2011).

Concurrent with the growth of emerging markets, a separate, but equally important business phenomenon is the shift toward a service-dominated economy (Goerzen & Makino, 2007; Javalgi & Martin, 2007). The shift toward a service-dominated economy is also evident internationally. Service firm Foreign Direct Investment (FDI) now accounts for nearly two-thirds of total FDI compared with less than 50% in 1990 (UNCTAD, 2009) and services comprise the fastest growing sector of world trade for the past two decades (Pauwels & De Ruyter, 2004). Following these major shifts comes a need for a better understanding of the internationalization of service firms (e.g. Elg et al., 2008; Evans et al., 2008), particularly in emerging markets.

Emerging markets often pose challenges for service firms from industrialized countries because of resource scarcity, unstable demand, deficiencies in terms of institutions and infrastructure, and inadequately trained workers (Li & Scullion, 2010). Consequently, given the limited success Multinational Enterprises (MNEs) often have in emerging markets (Coleman & Marriott, 2008), additional research is needed to help understand how service firms establish and maintain competitive advantages in emerging markets (Peng et al., 2008).
Accordingly, the objective of this study is to examine the role of emerging-market conditions on the effects of first-mover advantages (FMA) for service firms in emerging markets. Timing of entry is an established predictor of firm performance with a long history of research in developed markets and for manufacturing firms (e.g. Carpenter & Nakamoto, 1989; Lieberman & Montgomery, 1988; Rodriguez-Pinto et al., 2011; Suárez & Lanzolla, 2007; Usero & Fernandez, 2009). The majority of research has shown that early entrants into new markets often enjoy first-mover advantages. 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 et al., 1995: 214). However, services were not specifically addressed in this study.

Some recent research has also indicated the existence of FMAs in emerging markets. For example, Luo and Peng (1998), Pan et al., (1999), Isobe et al. (2000), and Cui and Lui (2005) all found evidence of significant entry-order effects, where early entrants outperformed later entrants in China. Indeed, Luo and Peng (1998, p. 155) conclude that “early investors have superior performance in profitability, sales growth, asset turnover, competitive position, and uncertainty reduction relative to late entrants.” Yet, all of these studies have focused on manufacturing firms and been confined to the specific environmental context of China.

In their review of the FMA literature, Kalyanaram et al. (1995) conclude that “research is still needed on pioneer market share advantages for services, retailers, and in emerging markets” (p. 218, italics added). While some studies have made conceptual contributions regarding FMAs and the specific environmental conditions of emerging markets (e.g. Nakata & Sivakumar, 1997), few have made empirical contributions. Given that existing research on FMAs in manufacturing firms in emerging markets has been focused primarily on China, the role of differing environmental conditions on the creation of FMAs for service firms has not been sufficiently addressed. Thus, a fundamental research question remains: How does environmental conditions impact service firm performance in different emerging markets affect firms’ ability to secure first-mover advantages?

Theoretically, the study is based on Suarez and Lanzolla’s (2005; 2007) environmental dynamics theory of FMAs. Based on their theory, we develop a general proposition suggesting that a calmer and smoother environment enables the creation of FMAs, whereas a dynamic and rapidly changing environment inhibits the ability of early entrants to generate FMAs. To test the hypothesized framework, we examine the role of the environment on the creation of FMAs in the knowledge-intensive advertising industry.

We elect to examine the advertising industry for several reasons. First, it is a large industry with a global footprint. Several of the largest ad agencies (e.g. J.W.Thompson, Ogilvy & Mather, Young & Rubicam) have operations in nearly 100 countries. Thus, we can examine the role of entry order and environmental dynamics with the same set of firms in different markets. Second, the advertising industry is knowledge-intensive industry where the firm’s most important asset “walks out the door each night” (von Nordenflycht, 2011). It has commonly been assumed that FMAs may be confined to more capital-intensive manufacturing industries (Song et al. 1999). Thus, examining entry-order effects in a knowledge-intensive advertising industry is a heretofore underexplored context. Finally, the advertising industry has many similarities with other knowledge-intensive professional service industries (e.g. consulting, accounting, and law), which suggests that the findings of this study may be generalizable to other professional service firms (von Nordenflycht, 2011).

Theoretically, this study advances researchers’ understanding of FMAs by identifying the
contextual factors in emerging markets that affect firms’ ability to gain FMAs. This study also provides valuable insights for managers to help determine which conditions favor early entrants and which favor late entrants and for emerging-market policy makers in their efforts to attract foreign direct investment and create a competitive market place.

We proceed by first briefly reviewing the literatures on FMAs and emerging-market environments. Then, we describe the internationalization process of service firms, particularly advertising agencies focusing upon traditional media. This leads to the delineation of several hypotheses on how emerging-market conditions are expected to affect the relationship between entry order and firm performance for service firms. This is followed by the empirical analysis and the study concludes with a discussion of the managerial implications.

LITERATURE REVIEW

The Relationship between Entry Order and Firm Performance

Performance effects as a result of timing of market entry have received abundant interest by researchers in management and marketing over the past several decades (e.g. Varadarajan et al., 2008; Suarez & Lanzolla, 2007; Lieberman & Montgomery, 1988; Kalyanaram et al., 1995). A general conclusion drawn from this stream of research is that early entrants into a new market enjoy advantages that later entrants do not, which result in a “significant market share penalty for later entrants” (Urban et al., 1986, p. 655).

Emerging markets present unique challenges that can inhibit the success of traditional marketing strategies (Baack & Boggs, 2008; Burgess & Steenkamp, 2006). For example, AstraZeneca, while undergoing a big push to take advantage of opportunities in emerging markets, is reluctant to solely sell the lowest-margin generic drugs as they would not help meet profitability goals (Whalen, 2010). Early entrants into emerging markets are also faced with substantial market development efforts while coping with high demand uncertainty (Kalyanaram, 2008). Coupled with an uncertain political environment, economic crises, and changing societal attitudes, emerging markets success is a high-stakes game. This is especially so given the recent financial meltdown (Henisz & Zelner, 2010) and political instability in the Middle East and North Africa. Thus, the extent to which FMAs are achievable and sustainable in emerging markets is questionable, particularly with firms focusing on the sale of services.

Although the FMA literature has primarily dealt with firms operating in advanced economies (Rahman & Bhattacharyya, 2003), a limited body of research has found that FMAs may indeed transfer into emerging markets. In an examination of light manufacturing foreign direct investment into China, Luo and Peng (1998) found a strong competitive advantage for early entrants over late entrants in terms of returns on sales, returns on equity, sales growth, asset turnover, and competitive position. Not surprisingly, they also found that early entrants assume greater risk than later entrants. Pan et al. (1999) replicated their findings with a broader sample of almost 15,000 foreign direct investments in China, which also indicated that early entrants outperformed later entrants in terms of profitability and market share. Further support was provided by Isobe et al. (2000) who found that early entry was positively related to both profitability and market share for Japanese-Chinese international joint ventures in China. Cui and Lui (2005) also examined a large sample of investments into China and found that early entrants had larger market share than later entrants.

Although the nature of the advantage is somewhat different for service firms, we do expect that early service firm entrants will also be able to secure long-term advantages. Local market knowledge is essential for emerging-markets success (Inkpen & Ramaswamy, 2007) and the acquisition of emerging-market knowledge depends greatly on personal
relationships (Oliver & Hayward, 2007). Early entrants in emerging markets have the ability to preempt host-country human resources through acquisition of talent and establishment of influential local contacts (Frynas et al., 2006), which leads to human capital and relational capital advantages (Magnusson et al., 2009). Thus, we expect that entry order into emerging markets will be inversely related to performance, i.e. early entrants perform better than later entrants, which leads to our baseline main effect hypothesis.

\[ H_1: \] Early service firm entrants in emerging markets will have higher market share than later entrants.

**Environmental Dynamics Theory of First-Mover Advantages**

Hunt and Morgan (1996) suggest that competitive processes are influenced by societal resources, societal institutions that frame the rules of the game (North, 1990), and public policy decisions. Thus, in addition to understanding how firm resources affect FMAs in emerging markets, it is also important to understand how environmental conditions affect FMAs in emerging markets.

Suarez and Lanzolla’s (2007, 2005) environmental dynamics theory of FMAs provides a suitable theoretical foundation for our proposed framework. Suarez and Lanzolla (2007) suggest that most prior FMA research has focused on one of two areas. First, one stream has identified and classified the basic “isolating mechanisms” through which first movers’ “entrepreneurial rent” can be protected from imitative competition. This includes technology leadership, consumer switching costs, and resource preemption (Lieberman & Montgomery, 1988). A second stream has described the firm-level enablers or resources and capabilities that allow organizations to exploit FMAs (e.g. Varadarajan et al., 2008).

To extend prior literature and build a comprehensive theory of FMA, Suarez and Lanzolla (2007, 2005) add “environmental enablers,” which they suggest includes pace of market evolution and pace of technology evolution. Suarez and Lanzolla (2007) limit their arguments of the role of market evolution to specific product market characteristics. Yet, we argue that their framework can be successfully expanded to encompass an emerging market’s overall market evolution.

Suarez and Lanzolla (2007) suggest that market conditions which develop at a smooth and relatively slow pace enable first movers to grab a larger share of market resources and market space and make it more difficult for followers to break the early entrant’s advantage. A slow, gradual pace of market development allows early entrants to keep their technology current and to organize production and supply chains to meet demand (Suarez & Lanzolla, 2005). A slow, gradual pace of market development also makes it difficult for competitors to provide a differentiated offering and slight competitive innovations can quickly be imitated by the first mover. Further, a stable environment promotes consumer learning (Polanyi, 1983), which is expected to increase switching costs in favor of the first mover.

In contrast, Suarez and Lanzolla (2007) argue that an unstable and rapidly changing environment creates uncertainty and makes sound decision making more difficult. A rapidly changing environment is also expected to create new market spaces and consumer segments that make it easier for later entrants to negate the first mover’s advantages. For example, in the rapidly growing retail markets of Poland and the Czech Republic, there were recently 18 well-known, multinational retailers fighting it out for dominance (Dickinson, 2006). Thus, rapid market development is highly unfavorable for the development of FMAs and makes long-term dominance unlikely (Suarez & Lanzolla, 2005).

In sum, Suarez and Lanzolla (2005, 2007) have proposed an environmental dynamics theory of FMA. It explicitly incorporates the environment as an enabler (or disabler) of firms’ ability to generate FMAs. They argue that a smooth and relatively stable environment is an important
enabling mechanism that allows early entrants to generate a sustainable competitive advantage. We suggest that their theoretical enhancement provides a useful lens to examine FMAs for advertising agencies in emerging markets.

Our conceptual framework, illustrated in Figure 1, examines three dimensions of the environment. Drawing on the traditional economic, political, and socio-cultural dimensions of the international business environment (e.g. Cavusgil et al., 2005), we examine 1) political instability, 2) economic openness, and 3) urbanization growth. We view these factors as representative and illustrative of the pace and stability of market evolution. All of our arguments are consistent with Suarez and Lanzolla’s (2005, 2007) environmental dynamics theory of FMAs and are consistent across environmental dimensions.

**Political Instability**

Specifically, we suggest that political instability will hinder the early entrant’s ability to secure FMAs. Sheth (2011) suggests that when competing in emerging markets, it is more important to attract, develop, and maintain relationships with government institutions and their leaders than with customers or consumers. Thus, relational and informational capitals (Hunt, 2000) with institutional leaders are particularly important resources for success in emerging markets (Freeman & Sandwell, 2008). A stable political environment allows the development and maintenance of long-term relationships that can foster a sustainable competitive advantage for early entrants. However, political instability introduces uncertainty and volatility, e.g. changing economic institutions or regulations, and often leads to a change in powers, which may mean that key relational resources are now inaccessible or irrelevant. This may mean that the early entrants’ preemption of resources in the form of established relationships and networks may become obsolete in a politically volatile environment. In effect, what was once a favorable business environment may suddenly turn unfavorable, which may put later entrants at a more even footing and negate the early entrant’s advantage.

The ongoing quest for global domination between Coca-Cola and Pepsi can be used to illustrate the role of political instability. In 1972, Pepsi entered an agreement with the

---

**FIGURE 1:**

**Conceptual Framework**

- **Political Instability**
- **Economic Openness**
- **Urban Growth**

<table>
<thead>
<tr>
<th>Entry Order</th>
<th>H₁⁻</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Instability</td>
<td>H₂⁺</td>
</tr>
<tr>
<td>Economic Openness</td>
<td>H₃⁺</td>
</tr>
<tr>
<td>Urban Growth</td>
<td>H₄⁺</td>
</tr>
</tbody>
</table>

**Controls**
- Firm Size
- International Experience
- Entry Mode
- GDP/Capita
- GDP Growth

---

*Marketing Management Journal, Spring 2012*
Soviet government, which gave Pepsi the right as the first Western brand to sell soft drinks in the Soviet Union. Thus, Pepsi had about a twenty year head start on Coca-Cola, which wasn’t able to enter the country until shortly before the fall of the communist regime in the late 1980s. However, following political liberalization, Pepsi lost its preferred status, became a symbol of the old regime, and was quickly overtaken by Coca-Cola as the leading soft drink brand. In contrast, Coca-Cola was the first mover in the Indian market. Yet, when a new Indian government requested that Coke turn over its secret formula, Coke chose to exit the market in 1977. Although, Coke returned in 1993, India is one of few markets worldwide where Coke is trailing Pepsi in terms of market share (e.g. Chazan et al., 2010; Fairfield & Nguyen, 2007).

Similarly, McDonald’s (Nakata & Sivakumar, 1997) and Starbucks (Roberts, 2007) have seen their leases of prime real estate in Beijing cancelled due to an abrupt change of mind of the city’s leaders. This kind of “flexibility” in the rule of law is symptomatic of political uncertainty and challenges an early entrant’s ability to secure long-term advantages. Accordingly, based on these theoretical arguments and anecdotal support, we advance the following hypothesis on the moderating effect of political instability:

\( H_2: \) Political instability negatively affects early entrants’ ability to generate first-mover advantages.

**Economic Openness**

Economic openness relates to both the political and economic environment. A country’s degree of integration with the global economy reflects the country’s openness to international trade, which promotes the entry of foreign competition and a more competitive landscape in general. Thus, a country’s degree of international economic integration serves as an indicator of entry barriers for foreign firms. Makadok (1998) found that low barriers to entry negatively affect market share advantages obtained by early entrants in the knowledge-intensive mutual funds industry. The lack of entry barriers promotes entry of additional foreign competition and increased competition makes it more difficult for early entrants to capture higher economic rents (von Hippel, 1988).

In the context of advertising agencies, international expansion of professional service firms is often driven by the need to follow current clients into new geographies (Bouquet et al., 2004; Terpstra & Yu, 1988). Low entry barriers are important to allow the establishment of new advertising subsidiaries but also to allow entry of the network of clients that the advertising agency serves. This suggests that in an economically integrated market, late entrants may enter with an existing client base. Thus, economic integration potentially provides a late entrant with a more easily accessible customer segment, which should allow it to negate the early entrant’s advantage. In contrast, limited economic integration suggests a lack of openness and protectionism. In this case, local governments may establish entry barriers limiting the amount of competition and enhancing FMAs for the firms that had been allowed to enter (Reardon et al., 1996).

Pan et al. (1999) illustrate the role of economic openness with an anecdote of Chrysler’s experience in China in the mid 1990s. Although some foreign auto makers had gained access to the Chinese market, at this time, the Chinese government decided to not allow any new major foreign operations. Consequently, Chrysler was shut out and forced to wait for future opportunities. In the meantime, the early entrants had a near-monopolistic opportunity to develop customer loyalty and preempt local human talent. Accordingly, we suggest that economic openness will moderate the relationship between entry order and firm performance and we summarize these arguments in the following hypothesis.

\( H_3: \) Economic openness negatively affects early entrants’ ability to generate first-mover advantages.
Urbanization Growth

Urbanization growth captures the dynamics of the socio-cultural environment, and particularly the demographic makeup of the country. As emerging markets develop, they often experience a tremendous flow of people moving from the rural countryside to the urban centers. For example, in 1990, 74% of China’s population lived in rural parts, but by 2008, almost half of China’s population lived in urban centers (World Bank, 2008). Urbanization growth increases the attractiveness of the emerging market, making it more likely to increase the competitive pressure on the early entrant. By itself, greater competitive pressure is likely to reduce the early entrants’ ability to secure FMAs (D’Aveni, 1995; Williams, 1992). Further, urbanization growth creates increased demand from new, previously untapped customers. Thus, new market spaces and customer opportunities that have not yet been exploited by incumbents emerge (Christensen, 1997). Consequently, high urbanization growth makes it easier for laggards to establish a foothold and reach a critical volume, which should allow the laggard to compete more effectively against early entrants.

Conversely, slower urbanization growth curtails demand and the availability of new customers. Lower urbanization may also indicate a more unequal society. Nakata and Sivakumar (1997) argue that the existence of high income inequality provides early entrants with a relatively narrow, yet clearly identifiable affluent market segment. The market elite is expected to produce the early entrant an important foothold, which can then be gradually exploited additional customer segments, while facing limited competitive rivalry (Nakata & Sivakumar, 1997).

In the B-to-B advertising industry, it should be noted that these arguments are somewhat indirect in that urbanization growth increases B-to-C opportunities, which then increases advertising agencies opportunity to add new accounts and to increase billings from existing accounts which serve the consumer markets directly. We summarize these arguments in the following hypothesis on how urbanization growth is expected to moderate the relationship between entry order and firm performance.

**H4:** Urbanization growth negatively affects early entrants’ ability to generate first-mover advantages.

METHOD

Sample

The 1990s was a period of economic liberalization and regulatory relaxation in many emerging markets. Consequently, it presented opportunities for MNEs to enter new, previously unexplored markets. To test the proposed framework, the sample for this study comes from a database of the international operations of major advertising agencies. The advertising industry was chosen as a focal industry due to its high level of internationalization, with foreign subsidiaries in a large number of emerging markets.

An annual survey of advertising agencies’ international operations was conducted by *Advertising Age* from 1986 to 2001. As these markets opened up to foreign investors in the end of the 1980s, a 15-year time frame is appropriate to examine long-term sustainable advantages stemming from entry order. The survey tracked operations in more than 100 different countries during that time period. We focus on the international operations of advertising agencies in two important emerging-markets regions: 1) Eastern Europe, and 2) Africa and the Middle East. The specific agencies and countries are listed in Tables 1 and 2.

The former Soviet-controlled countries in the Eastern bloc opened up for foreign direct investment shortly after the fall of the Berlin Wall in 1989. Until then, except for a few limited exceptions, these markets had been largely closed to foreign investors and the advertising industry in the countries can best be described as rudimentary (Church, 1992) or even prohibited (Springer & Czinkota, 1999).
Since, Eastern Europe has undergone an impressive transformation. Economic reforms, investor-friendly policies, and ambitious privatization programs (Reed, 2000) spurred strong growth. For example, Poland’s and Slovakia’s tripled their country’s GDP during the 1990s (World Bank, 2011). Consequently, Eastern Europe also became important markets for the world’s global advertising agencies in their battle for global domination. Thus, our Eastern Europe sample includes 178 advertising subsidiaries in 17 countries.

In contrast, Africa has been slower to develop economically. For example, Ivory Coast and Namibia experienced almost no economic growth during the 1990s. Many countries also continue to be plagued by political turmoil and civil strife. However, future forecasts are somewhat more optimistic. Economic growth rates in the 21st century have been more positive (World Bank, 2011), the AIDS epidemic has been slowed in many markets (The Economist, 2011), and Africa is now viewed as the next frontier (Hagerty & Connors, 2011). Annual growth often exceeds five percent in many African countries (Seria & McGregor, 2011) and the total African economy may approach $3 trillion by 2020 (McKinsey, 2010). Our sample of Middle East and African markets includes 18 countries and 134 advertising subsidiaries.

Variables

The dependent variable in our study is market share, the most common performance variable used in the first-mover literature (VanderWerf & Mahon, 1997; Varadarajan et al., 2008). Market share is a particularly good performance indicator for studies that compare multiple international markets because market share 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. Market share is measured by the 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 the advertising industry in the sample countries was at a very rudimentary level before their markets 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. To correct for non-normality, the variable was log-transformed.

Consistent with Pan et al. (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.

The moderating environmental variables were drawn from major publicly available databases. Freedom House has been publishing its *Freedom in the World* report annually since 1973. To measure political instability, we calculated the standard deviation for each country on the political rights and civil liberties scales during the time period. A higher standard deviation suggests greater volatility and market uncertainty, whereas a lower standard deviation suggests greater stability. Economic openness is indicated by a country’s degree of integration with the global economy and measured by the ratio of international trade to total GDP, provided by *Euromonitor*. Urbanization growth is measured by the year over year change in urban population, provided by the *World Development Indicators*. Economic integration and urbanization growth was averaged over the total time period.
In addition to the hypothesized variables, we also control for firm size (total firm sales), firm international experience (a combined construct based on the number of years of international experience and number of countries of international experience), firm entry mode (greater than 50% ownership = 1, less than 50% ownership = 0), GDP growth (real growth rate averaged over the time period), and GDP per capita (PPP averaged over the time period).

**RESULTS**

Because the variables in this study are at different levels (subsidiary, firm, and country), we chose to use Hierarchical Linear Modeling (HLM) to analyze the proposed framework. Our model is a two-level cross-classified model, where lower-level variables (subsidiary) are cross-classified by variables from two higher levels (firm and country).

Table 2 presents the results of the hypothesized framework in the two separate samples. In support of $H_1$, late entrants have significantly lower market share than early entrants in Eastern Europe (EE) ($\beta = -.52$, $p < .001$) and Middle East and Africa (MEA) ($\beta = -.20$, $p < .05$). Furthermore, there is strong general support for the moderating effects of environmental conditions. $H_2$ predicts that political instability will reduce early entrants’...
ability to generate FMAs, which is supported in EE ($\beta = 1.03$, $p < .05$), but not in MEA. $H_3$ suggests that greater economic openness reduces FMAs, which is supported in both geographic regions (EE: $\beta = .01$, $p < .05$ / MEA: $\beta = .01$, $p < .05$). Urban growth rate does not significantly moderate the relationship between entry timing and performance in either sample, thus we must reject $H_4$.

The firm control variables indicate significant effects for international experience. Consistent with the international experience literature (e.g. Evans et al., 2008), we find a positive relationship between international experience and firm performance. Firm size is negatively related with performance in MEA. This suggests that a smaller, perhaps more nimble firm may be advantageous in this region. In addition, the results suggest a marginal negative relationship for entry mode. This should be interpreted as majority ownership stake (with limited partner involvement) is negatively related with firm performance. Further, GDP per capita is positively related with firm performance in the EE region.

Finally, we illustrate the significant interaction effects in Figure 2. The significant main effect is evident in the negative slopes for all lines.
However, the negative relationship is less severe in economies characterized by political instability and economic openness.

**DISCUSSION**

The growing importance of emerging and developing markets has compelled researchers to gain a better understanding of these new and different market environments that represent one of the best opportunities for firm growth. Of particular interest has been the question of whether or not FMAs are possible in emerging markets and under what environmental conditions are they strengthened or weakened. Prior research has applied R-A theory (Hunt & Morgan, 1995) to help us understand the relationship between entry order and performance in emerging markets. This has led to important insights into how firm resource advantages translate into superior firm performance (e.g. Cui & Liu, 2005; Magnusson et al., 2009; Pan et al., 1999). However, largely absent from prior research has been the incorporation of the environment.

Considering the unique environment of emerging markets and its profound expected

---

**TABLE 3:**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Eastern Europe</th>
<th>Middle East and Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
</tr>
<tr>
<td>Constant</td>
<td>-.54***</td>
<td>-.53***</td>
</tr>
<tr>
<td></td>
<td>(.10)</td>
<td>(.09)</td>
</tr>
<tr>
<td>Entry Order Lag</td>
<td>-.52***</td>
<td>-.51***</td>
</tr>
<tr>
<td></td>
<td>(.12)</td>
<td>(.12)</td>
</tr>
<tr>
<td>Firm Size</td>
<td>.13</td>
<td>.08</td>
</tr>
<tr>
<td></td>
<td>(.17)</td>
<td>(.17)</td>
</tr>
<tr>
<td>International Experience</td>
<td>.41**</td>
<td>.37**</td>
</tr>
<tr>
<td></td>
<td>(.11)</td>
<td>(.11)</td>
</tr>
<tr>
<td>Majority Ownership</td>
<td>-.21†</td>
<td>.17</td>
</tr>
<tr>
<td></td>
<td>(.15)</td>
<td>(.15)</td>
</tr>
<tr>
<td>GDP Growth</td>
<td>-.03</td>
<td>-.04</td>
</tr>
<tr>
<td></td>
<td>(.03)</td>
<td>(.03)</td>
</tr>
<tr>
<td>GDP per Capita</td>
<td>.18*</td>
<td>.20*</td>
</tr>
<tr>
<td></td>
<td>(.11)</td>
<td>(.11)</td>
</tr>
<tr>
<td>Urban Growth</td>
<td>-.02</td>
<td>-.01</td>
</tr>
<tr>
<td></td>
<td>(.09)</td>
<td>(.09)</td>
</tr>
<tr>
<td>Economic Openness</td>
<td>-.00</td>
<td>-.00</td>
</tr>
<tr>
<td></td>
<td>(.00)</td>
<td>(.00)</td>
</tr>
<tr>
<td>Political Instability</td>
<td>.20</td>
<td>.34</td>
</tr>
<tr>
<td></td>
<td>(.30)</td>
<td>(.30)</td>
</tr>
<tr>
<td>Lag * Urban Growth</td>
<td>-.11</td>
<td>(.12)</td>
</tr>
<tr>
<td>Lag * Political Instability</td>
<td>1.03*</td>
<td>(.46)</td>
</tr>
<tr>
<td>Lag * Economic Openness</td>
<td>.01*</td>
<td>(.00)</td>
</tr>
</tbody>
</table>

**Model fit**

<table>
<thead>
<tr>
<th>Deviance statistic (χ²-difference)</th>
<th>36.62***</th>
<th>10.32*</th>
<th>15.51*</th>
<th>13.45**</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIC</td>
<td>485.34</td>
<td>481.09</td>
<td>400.79</td>
<td>393.34</td>
</tr>
<tr>
<td>Subsidiary-level n</td>
<td>178</td>
<td></td>
<td>134</td>
<td></td>
</tr>
<tr>
<td>Country-level n</td>
<td>17</td>
<td></td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Firm-level n</td>
<td>21</td>
<td></td>
<td>17</td>
<td></td>
</tr>
</tbody>
</table>

†p < .10, * p < .05, ** p < .01, *** p < .001 (1-tailed)
impact on marketing strategy (Sheth, 2011), a greater understanding of how environmental dynamics in emerging markets affect firm strategy and performance is valuable. The current study complements prior research on FMAs in emerging markets by analyzing the effect of environmental conditions, particularly those relevant to the stability and pace of development as suggested by environmental dynamics theory of FMAs (Suarez & Lanzolla, 2007). The results of this study confirm the ability of firms to establish FMAs in emerging and developing markets, and also shed light on what and how environmental factors enhance or impair FMAs. These findings also remain consistent with the predictions of R-A theory, which suggest that the environment is expected to influence firm conduct and performance.

Concurrently, the findings present a complex picture as to what factors managers must consider when determining whether to enter a market as a pioneer or as a follower. Specifically, our findings suggest that markets characterized by political instability inhibit early entrants’ ability to generate FMAs. This finding appears logical given the uncertainty and risk associated with political instability.
Regulations governing business activity in the market can unexpectedly change, and possibly negate any competitive advantages a firm had thus far worked to achieve. As a result, later entrants, and new entrants, can gain relative competitiveness. In other words, it is possible that an unexpected change in the regulatory environment can level the playing field and reset the entire competitive landscape. Striving to be an early entrant into a market is less advantageous. Thus, political instability negates the disadvantage of lateness to the market.

The second environmental factor, degree of economic openness, also inhibits the generation of FMAs. Greater economic integration into the global economy suggests more openness to inward FDI and international trade. Thus, the market is more attractive to the establishment of new competitors limiting the ability of early entrants to establish FMAs.

The addition of an environmental dimension to FMA theory is an important extension. Suarez and Lanzolla (2007) lament that despite a rich history of research examining FMAs, the enabling (or disabling) role of a dynamic environment has largely been absent from FMA research. This study provides significant empirical support in support of Suarez and Lanzolla’s (2007) environmental dynamics theory of FMAs. Enhancing our understanding of FMAs, this study provides empirical support for a broad theoretical framework that incorporates 1) firm-level enablers, 2) isolating mechanisms, and 3) environmental enablers.

**Implications for Managers**

There appears to be strong consensus among nearly all constituents that economic growth in the 21st century will largely come from emerging and developing markets. Thus, it is imperative that managers have a better understanding of what it takes to succeed in emerging markets. The first general finding that is important for managers is that we found a significant main effect for entry order. This is particularly noteworthy considering that we divided our sample into two unique geographic regions. Despite Eastern Europe’s commitment to reform and economic openness following the fall of the Berlin wall, transitioning from a closed, centralized economic system to an open,
competitive system is not without its challenges. The Russian economy almost shrank to half the size from 1990 to 2000 (World Bank, 2011), indicative of the challenges that come with economic liberalization. Further, economic liberalization also often bring corruption concerns. Still today, many countries in Eastern Europe, and most of the Middle East and Africa have significant corruption challenges (Transparency International, 2010).

It is perhaps even more noteworthy that there is also a significant advantage to being an early entrant in the Middle East and Africa. Many of the African markets have very low GDP per capita, weak infrastructure, and brittle institutions. The fundamental challenges and uniquely different environment have meant that many Western firms have been reluctant to enter these markets and chosen to wait with the hope that they would become more similar to Western markets. Yet, despite the challenges of operating in emerging markets and even in some least developed markets, it appears that early entrants have an advantage in securing relational, human, organizational, and informational resource advantages that have long-term benefits.

In addition, the significant environmental moderating factors also provide important insights to managers to aid in the strategic decision making relating to emerging markets. These environmental factors offer direction on when the market is more conducive to developing FMAs for early entrants, or conversely allows a later entrant to mitigate the early entrant’s advantage. Our findings may be particularly useful for laggards trying to determine the best time to enter a new market to try to take away market share and profits from the incumbents. Mitigating a late-mover disadvantage may be “easiest” to do following a period of turmoil. The Jasmine revolution during spring of 2011 brought a great deal of political volatility in the Arab world, for example Egypt, Tunisia, Yemen, Libya, and with an ongoing violent conflict in Syria. However, once the political turmoil has stabilized a little bit may be an opportune moment to enter these markets. Long-standing client and government relationships for the incumbent firms may now be obsolete or even disadvantageous and it provides a fresh opportunity for new entrants to develop relationships with the new powers. Political instability is also often followed by a period of high growth that presents opportunities for late entrants in the form of new consumer segments and increased demand, which reduces entry barriers and makes it easier for the late entrant to gain a foothold.

**Limitations and Opportunities for Future Research**

In this study, we identified and evaluated three environmental factors. Future research may want consider additional environmental factors whose effect has yet to be identified. An additional potential limitation that may affect the generalizability of this study include that only a single industry, advertising agencies, were analyzed. Therefore, the extension of this study into other industries and additional countries would benefit the generalizability of the findings. A replication using largely consumer services firms from the retailing, consumer banking, and hospitality industries would be interesting as the results could then be contrasted against the advertising industry, which is comprised of primarily business-to-business transactions. A comparison with manufacturing firms would also be particularly appropriate given the perceived differences between services and manufacturing industries.

Despite the limitations, the results of the study further our understanding of FMAs and emerging markets by empirically verifying Suarez and Lanzolla’s (2007) conceptual environmental dynamics theory of FMAs. Consistent with expectations, environmental conditions shape the relationship between entry order and firm performance. In this investigation, political stability, low economic openness, and slow urbanization growth are all related with early entrants’ ability to secure FMAs and sustainable competitive advantages.
REFERENCES


Miller, M. (2009). For the first time ever, the emerging markets of Brazil, India and China are expected to lead rather than follow a global recovery. *The Deal*, 7(22), 36-43.


