

Profitability and Speed of Foreign Market Entry

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Abstract This research explores the relationship between firm profitability and actual speed of foreign market entry. Results suggest that profitability has an inverted U-shaped relationship with actual speed of foreign market entry, in the context of large US corporate law firms entering China. This result supports the idea that firms with both the need and resources to expand into foreign markets rapidly will do so, while laggards will lack either the resources or need to enter markets. Results also suggest that previously established offices in culturally similar markets, larger firm size, firm infancy, and prior international experience hasten market entry. Alternatively, limited organizational slack and concentrated practices delay market entry. Unexpectedly, prior entry of competitors appears to represent a deterrent to rapid entry. Additionally, while regulatory reforms on foreign law firms in China allowed for wider geographic access, they also increased operating restrictions, slowing entry speeds. Finally, results suggest that intense home-market competitive intensity may divert or decrease resource commitments to rapid foreign expansion.

Keywords Market entry timing · Profitability · China · Service firms · Law firms

1 Introduction

This article focuses on firm profitability as a factor related to speed of foreign market entry. Research suggests that early entrants may enjoy first-mover advantages in foreign markets (Lieberman and Montgomery 1988). Yet research

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has also tended to focus on the consequences of order of entry into foreign markets (Hsu and Chen 2009; Luo 1995; Mascarenhas 1992a, b), without fully considering the antecedents to speed of entry (Gaba et al. 2002; Mascarenhas 1992b). It is important to explore the antecedents to speed of entry, and profitability in particular, for several reasons.

To begin with, differences in speeds of entry may indicate the potential for lead times enjoyed by early entrants. Categorizations of early- versus late-entrants, as used in past research (Lieberman and Montgomery 1988; Mascarenhas 1992a), do not necessarily indicate that early entrants have time to capitalize on first-mover advantages. Second, with early- versus late-entrant categorizations firms may be grouped together as early entrants, even with differences in entry timing among firms in the same group (Gaba et al. 2002). Third, the dominant factor discussed in research on order of foreign market entry is a firm's position relative to its home-market competitors, in terms of resources that lead to profitability (Ito and Pucik 1993; Mascarenhas 1986; Porter 1985). As a result, considering the relationship between profitability and actual speed of foreign market entry will advance our understanding of the antecedents to market entry timing, and complement existing research on consequences of entry timing.

In order to further explore the relationship between profitability and actual speed of foreign market entry, this analysis is divided into several sections. First, a background and hypothesis section will offer a discussion of selected and relevant literature on order and speed of market entry, and will present the single hypothesis in this study. Second, a methodology section will describe the sample and empirical context along with operational definitions used and modeling procedures. Next, the empirical results of this analysis will be presented. And finally, a brief conclusion and discussion section will highlight implications for research and practice, and identify limitations and areas for further research.

2 Background and Hypothesis

Distinctions between more- or less-dominant firms have been related to international strategy in a number of contexts. The advantages enjoyed by more-dominant firms may include more competitive products or services, cost advantages, valuable relationships with customers and suppliers, and reputation advantages, among other organizational resources which result in greater levels of profitability (Ito and Pucik 1993). A recurring idea within this research is that less-dominant firms must seek ways to counter the competitive advantages of more-dominant firms while simultaneously avoiding all-out retaliation (Mascarenhas 1986, Porter 1985). In particular, the advantages enjoyed by more-dominant firms would make it difficult for less-dominant firms to weather retaliation in head-to-head domestic competition (Mascarenhas 1986; Ito and Pucik 1993). However, the advantages of more-dominant domestic players may be less potent in foreign markets, assuming that both dominant and less-dominant firms can provide high-quality competitive products or services (Ito 1997). As a result, a number of authors have offered that, for less-dominant firms, internationalization may be a means to counter the

competitive advantages of dominant firms while simultaneously avoiding all-out retaliation in the domestic competitive arena (e.g., Mascarenhas 1986; Hennart and Park 1994).

The implication of this idea is that less-dominant firms may pursue international strategies more actively. However, among the less-dominant firms, the least dominant and profitable firms may lack the organizational slack and resources required to pursue international strategies to overcome the competitive advantages of more-dominant competitors (Hennart and Park 1994; Ito 1997). As a result, the most-dominant firms and the very least-dominant firms, which lack organizational resources, may be less likely to pursue international strategies. Mascarenhas (1986) found support for this idea in the international strategies of multiple firms. Similarly, Hennart and Park (1994) found support for this idea in the context of Japanese firms setting up manufacturing operations within the US, and Ito (1997) identified the same relationship in the context of export ratios of Japanese firms.

In some industries, dominant firms may be able to use their resources to overcome the barriers that encourage foreign direct investment (FDI) on the part of less-dominant firms. Specifically, maintaining operations in a foreign market may allow firms to reduce costs associated with arms-length transactions (Boddewyn et al. 1986; Casson 1982). However, if a firm's resources provide advantages that reduce the impact of costs associated with serving the market from a distance, there may be less need for locating operations in the market. For example, for professional service firms, maintaining an office in a foreign market signals the ability to serve clients in that market and may serve as a mechanism for overcoming client uncertainty (Kotha et al. 2001). However, more profitable dominant competitors may be able to use their existing client relationships, reputations, and other resources to overcome any client uncertainty (Podolny 1993, 2005) without opening an office in a foreign market.

So far, we have considered two arguments for how more- versus less-dominant distinctions may relate to international strategies. The first argument suggests that the distinction between more-dominant firms and less-dominant firms is related to decisions on whether or not to pursue international strategies, and the second argument suggests that this distinction is related to decisions on how to pursue international strategies. In both cases, for less-dominant firms, the benefits of early entry into markets may be particularly attractive, and can be related to the first-mover advantage perspective (Lieberman and Montgomery 1988). Early entry may allow firms to build market-specific reputations, signal market understanding and commitment, and create switching costs for clients. The importance of quick entry for less-dominant firms is highlighted by past research which has offered that firms with less-exceptional, and less-monopolistic, ownership advantages may suffer if they delay entry into a market (Casson 1987; Rivoli and Salorio 1996). For example, in service industries, clients face a learning curve in integrating with service firms (Bowen 1986) and after building experience with the routines and procedures of a service firm, the prospect of shifting to another firm and relearning routines and procedures can represent a significant switching cost (Beatty et al. 1996; Jones et al. 2002; Zeithaml et al. 1996). Hence, less-dominant firms may see more advantages to swift market entry, because it may allow them to decrease the advantages of

more-dominant firms, and early entry could allow them to create first-mover advantages to reduce the potential for more-dominant firms to use their resource advantages to compete in foreign markets.

As noted above, the competitive products or services, cost advantages, valuable relationships with customers and suppliers, and reputation advantages enjoyed by more-dominant firms can result in greater levels of profitability (Ito and Pucik 1993; Porter 1985), making it possible to base more- or less-dominant firm distinctions upon relative profitability. It follows that this research expects to find an inverted U-shaped relationship between profitability, or relative profitability, and speed of entry into a foreign market. Specifically, the least profitable firms see advantages to early market entry, but lack the organizational resources required for rapid entry. More profitable firms, but not the most profitable firms, utilize their resources to quickly enter foreign markets in an attempt to overcome the competitive advantages of the most profitable firms and build first-mover advantages. And finally, the most profitable firms already enjoy competitive advantages and may be confident in their abilities to effectively pursue international strategies through arms-length transactions, reducing the urgency for rapid foreign market entry. These ideas are represented in the following hypothesis.

Hypothesis 1: Firms in less-dominant home-market positions will enter foreign markets more quickly than competitors when they have sufficient resources for international expansion, resulting in an inverted U-shaped relationship between profitability and speed of foreign market entry.

3 Methodology

3.1 Sample

Entry into the Chinese market by large US corporate law firms was identified as an ideal context for this analysis, as the Chinese market opened in 1992, offering a definite date from which foreign firms were allowed to establish a presence. During the time period of interest, foreign firms were banned from entering China through joint ventures and other collaborations with Chinese law firms (Baraban 1998; Heller 2003). These restrictions on foreign law firms reduce the likelihood that our sample and analysis missed firms with established presences in China through alternative agreements with local partners. In addition, these restrictions mean that options available to US law firms hoping to conduct business reflect the same options covered in the earlier theoretical discussion.

Data were gathered from several sources to create a database including observations over 17 years, from 1992 through 2008. Data were collected from *American Lawyer's* annual ranking of large US firms, firm websites, published histories, articles, and timelines, as well as the yearly *American Bar Reference Handbook*, issues of *The National Law Journal*, and *Chamber's USA*. In addition, data were further confirmed and checked through LexisNexis searches, searches of past issues of the *American Lawyer*, *Of Counsel*, and the *National Law Journal*.

Furthermore, where firm documents or letters were available on official letterhead in specific years, office locations listed on the letterhead were cross checked with the list of office locations for that firm in the corresponding year. Similarly, the *National Law Journal's* annual list of *Who Represents Corporate America* was used to identify firm clients. As a result, the final sample included data on 114 of the largest US law firms covering 17 years from 1992 through 2008, with 1,605 observations.

3.2 Variables

3.2.1 Dependent Variable

Given the phenomenon of interest in this analysis, market entry timing, the log of the hazard rate of entry into China was the outcome. As a result, data included a binary outcome variable for China entry as well as the year of entry.

3.2.2 Explanatory Variable

Profitability Relative profitability of firms was represented as the ratio of a firm's profits-per-partner (PPP) over the sample max PPP in a given year. This measure was selected because US law firms must organize as professional partnerships, rather than corporations, and the key metric of performance is profits generated for individual partners (Galanter and Henderson 2008; Galanter and Palay 1991; Sherer 1995). Additionally, PPP has been identified as an indicator of a firm's dominance relative to other firms in the US legal industry (Sherer 1995). The most profitable firms are those which attract a greater share of desirable high-end legal transactions in industries such as investment banking, which command larger fees (Sherer 1995; Smigel 1969). To test the validity of this measure, the PPP-based measures of profitability for "white shoe" law firms, which have historically attracted clients paying larger fees for high-end legal transaction in industries such as investment banking, were compared to the PPP-based measures in non-white shoe law firms and the white-shoe firms had significantly higher scores ($p < 0.001$). Further, the PPP-based measures were highly correlated with the Vault prestige rankings for available firms and years ($p < 0.001$), which is important because higher-status firms may be more profitable (Podolny 1993, 2005). These scores come from the *Vault Career Intelligence* website and are generated by asking associates to rate peer law firms on a scale of 1–10.

3.2.3 Firm-specific Control Variables

Size Larger firms may have more resources to devote to expansion (Hitt et al. 2006). Additionally, the resources associated with firm size may result in earlier foreign market entry (e.g., Zhao and Hsu 2007), especially when a foreign market is large, as is the case for China (Gaba et al. 2002). We operationalize size as the ratio of a firm's total lawyers to the sample max for total lawyers.

International Experience International experience may further increase commitments to international operations (Johanson and Vahlne 1977), offer advantages for subsequent international operations (Dunning 1988), and result in earlier foreign market entry (Coeurderoy and Murray 2008; Zhao and Hsu 2007). To operationalize international experience we use the natural log of the total number of years that had elapsed since a firm's first foreign market entry.

Age Next, researchers have noted that there are competing views on the relationship between age and internationalization (Oesterle 1997). First, in the context of this research, older firms may have ownership advantages in the forms of valuable client relationships and reputations (Smigel 1969), encouraging earlier market entry. Alternatively, older firms may be more rigid and path dependent in their operations, meaning that younger firms which have emerged in the era of internationalization would enter foreign markets earlier. As a result, the natural log of the total number of years since a firm's founding is included to control for firm age, without a priori expectations on directionality in the relationship.

Domestic Offices Additionally, as firms devote more resources to domestic operations, this may limit the ability to commit to foreign markets. This idea is consistent with the observations of Ito (1997), who notes that firms with limited operational slack may be less likely to undergo major strategic initiatives, such as internationalization. Alternatively, the experiential knowledge gained through opening and managing multiple offices domestically could potentially facilitate opening and maintaining foreign offices. Hence, this analysis includes a control variable for the natural log of the total number of a firm's domestic offices, without a priori expectations on the directionality of the relationship.

Associates/Partners Next, in professional service organizations, the ratio of associates to partners is referred to as the firm's leverage (Hitt et al. 2006). Higher ratios indicate more management intensive roles for partners, limiting their ability to engage in additional activities outside of their current practice. In a sense, this ratio of associates to partners represents a measure of organizational slack (Bourgeois 1981), and larger ratios would indicate less slack, suggesting a reduced ability to initiate overseas expansion.

Practice Concentration An additional factor that may relate to foreign market entry is the degree to which a firm's practice is concentrated in a limited number of industries. A more-concentrated practice may result in later entry given decreased chances of providing ideal services in a new market and decreased opportunities for synergies across services offered (Gaba et al. 2002). To control for practice concentration, the ratio of the number of corporate clients in the top two industries for a firm, divided by the total number of corporate clients identified in the yearly *Who Represents Corporate America* publication is used.

Hong Kong Next, firms with experience and relationships in the region, and especially Chinese markets, may perceive less liability of foreignness and may be more likely to enter the mainland Chinese market (Johanson and Vahlne 1977; Zhao and Hsu 2007). In particular, having a previously established office in Hong Kong may indicate experiential knowledge of a culturally similar market. Hence, a dummy variable for having a previously established office in Hong Kong is included in all of the models.

3.2.4 *Host-country Control Variables*

Market Size A key factor in host-country attractiveness is economic size. In particular, past research has suggested that larger markets encourage quicker market entry (Mascarenhas 1992b; Zhao and Hsu 2007). As a result, China's yearly GDP in trillions, is used to control for market size.

Political Risk Next, uncertainties created by incumbent governments may endanger the future value of FDI (Coeurderoy and Murray 2008). Hence, there may be a negative relationship between political risk and speed of market entry (Gaba et al. 2002). To control for political risk, we use the yearly sum of figures for expert judgments for the six key dimensions of political risk used in the *International Country Risk Guide*. These dimensions include (1) voice and accountability, (2) political stability and absence of violence, (3) government effectiveness, (4) regulatory quality, (5) rule of law, and (6) control of corruption, and were calculated using 12 different components. The maximum value possible is six with lower values indicating greater levels of political risk, so the measure was reverse scaled to make interpretation of estimates more intuitive.

Licensing Reforms An additional factor is the existence of relevant host-country regulations (Coeurderoy and Murray 2008). After initially allowing foreign firms to acquire licenses to operate a single office in China in 1992, the Chinese government reformed their regulations following their accession to the World Trade Organization in late 2001. These reforms attempted to simultaneously allow foreign law firms to expand their presence in China through multiple offices, while protecting a domestic legal industry in its infancy through the creation of additional restrictions and barriers for foreign law firms (Baraban 1998; Heller 2003). While the promise of expanded geographic access within the Chinese market might encourage quicker investment on the part of foreign law firms, it is also possible that the additional barriers created during reforms may serve as a deterrent for many law firms considering entry into China (Heller 2003). As a result, a dummy variable is included for years following China's licensing reforms for foreign law firms, without a priori expectations on the directionality of a relationship.

3.2.5 *Industry/Home-market Control Variables*

Dynamism In dynamic environments characterized by unpredictable change (Dess and Beard 1984; Wijnbenga and van Witteloostuijn 2007) international strategies

may be more attractive (Balabanis and Spyropoulou 2007). Faced with uncertainty, firms take on exploratory orientations to build capabilities and capture information (Sidhu et al. 2004). To control for dynamism, we use year-to-year regression on total lawyers and gross revenues to identify standard errors, which are divided by the yearly means for total lawyers and gross revenues. Then, consistent with the approach of Sharfman and Dean (1991), the sum of these two ratios is used to control for environmental dynamism.

Comp. Entry Finally, prior entry of competing firms may encourage early entry into a market (Gaba et al. 2002; Mascarenhas 1992b). This behavior may be an attempt to benefit from imitating firms perceived as having superior information (Bikhchandani et al. 1998; Shaver et al. 1997), or an attempt to ensure competitive parity with rivals (Knickerbocker 1973; Rose and Ito 2009; Yu and Ito 1988). To control for the prior entry of competitors, we use the approach of Gaba and Colleagues (2002) and control for the number of US law firms entering China in the previous year.

Competition The perception of high levels of domestic competitive intensity may also be positively related to international strategies (Cicic et al. 1999; Winsted and Patterson 1998). Consistent with this idea, we anticipate a positive relationship between home-market competitive intensity and speed of entry. To measure the level of competitive intensity, the Herfindahl index (Jacquemin and Berry 1979) for each local-home market in each year was subtracted from one. The Herfindahl index was subtracted from one because decreases in the index represent increased competition, which means that interpreting statistical estimates may be counterintuitive. By subtracting the index from one, positive estimates can be interpreted as positive relationships. It is important to note that this approach focuses on individual home markets of firms' founding cities, rather than the home domestic market as a whole, because these markets are likely to represent industry substructures with structurally equivalent firms competing for the same resources (Baum and Mezias 1992; Hannan and Freeman 1989). Focusing on home location to segment the population is consistent with past research (e.g., Carroll and Wade 1991; Swaminathan and Wiedenmayer 1991) and is consistent with the idea that firms from the same home location are likely to identify each other as rivals (Kilduff et al. 2010).

3.3 Analysis

The correlation matrix presented in Table 1, illustrates moderate to large correlations between the control variable for domestic offices and other variables including profitability, size, and local home-market competitive intensity. As a result, to assess the threat of multicollinearity, OLS versions of pooled models were used to calculate Variance Inflation Factors (VIF) and the maximum VIF was 2.28 for domestic offices. This number is below the commonly used thresholds of 10 and 4 (O'Brien 2007), however, models were also calculated without the domestic offices control variable to check for consistency in estimates.

Table 1 Pearson's correlation matrix

	Mean	SD	VIF	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Size	0.18	0.07	1.91	-												
2. Intl. experience	5.33	9.67	1.50	0.22	-											
3. Age	4.24	0.64	1.13	0.19	0.16	-										
4. Domestic offices	1.62	0.63	2.28	0.39	-0.15	-0.01	-									
5. Associates/partners	3.45	0.76	1.15	0.03	0.04	-0.09	-0.11	-								
6. Practice concentration	0.64	0.17	1.31	-0.43	-0.21	-0.24	-0.13	0.11	-							
7. Hong Kong	0.25	0.43	1.32	0.32	0.39	0.16	-0.05	0.06	-0.21	-						
8. Market size	4.39	0.37	1.15	-0.02	-0.03	0.00	0.00	-0.01	0.01	-0.02	-					
9. Political risk	2.64	0.14	1.36	-0.07	-0.05	-0.01	-0.02	0.03	0.03	-0.03	-0.33	-				
10. Licensing reforms	0.41	0.49	1.50	-0.09	-0.08	-0.02	-0.01	0.04	0.04	-0.10	-0.10	0.37	-			
11. Dynamism	0.07	0.02	1.29	-0.06	-0.04	-0.01	0.00	0.01	0.10	-0.07	0.00	0.10	0.24	-		
12. Comp. entry	2.62	2.32	1.56	-0.07	-0.06	-0.01	-0.01	0.02	0.03	-0.09	0.12	0.03	0.44	0.46	-	
13. Competition	0.59	0.30	1.49	-0.15	0.24	-0.14	-0.44	0.22	0.00	-0.03	-0.01	0.00	0.02	0.01	0.02	-
14. Profitability	0.28	0.16	1.77	0.27	0.27	0.05	-0.45	0.26	-0.03	0.19	0.04	-0.12	0.05	-0.03	0.03	0.37

Correlations of 0.05, 0.07, and 0.09 and above are significant at $p < 0.05$, $p < 0.01$, and $p < 0.001$ respectively

Table 2 Profitability and speed of China entry

	1	2	3	4	5
Size	6.251*** (0.567)	6.055*** (0.567)	6.088*** (0.573)	6.008*** (0.580)	5.203*** (0.616)
Intl. experience	0.018*** (0.004)	0.019*** (0.004)	0.022*** (0.004)	0.021*** (0.004)	0.019*** (0.004)
Age	-0.366*** (0.069)	-0.359*** (0.069)	-0.408*** (0.071)	-0.402*** (0.071)	-0.349*** (0.071)
Domestic offices	0.237** (0.081)	0.242** (0.081)	0.091 (0.096)	0.157 (0.112)	0.205 [†] (0.112)
Associates/ partners	-0.461*** (0.059)	-0.456*** (0.059)	-0.413*** (0.060)	-0.436*** (0.064)	-0.516*** (0.066)
Practice concentration	-0.866* (0.344)	-0.872* (0.343)	-1.064** (0.353)	-0.995** (0.358)	-0.873* (0.357)
Hong Kong	1.767*** (0.090)	1.755*** (0.090)	1.676*** (0.092)	1.672*** (0.093)	1.690*** (0.093)
Market size		-0.188 [†] (0.110)	-0.171 (0.109)	-0.171 (0.109)	-0.194 [†] (0.109)
Political risk		-0.419 (0.319)	-0.456 (0.325)	-0.344 (0.338)	0.078 (0.347)
Licensing reforms		-0.399*** (0.092)	-0.277** (0.100)	-0.303** (0.103)	-0.431*** (0.105)
Dynamism			-2.975 (2.104)	-2.933 (2.106)	-2.829 (2.111)
Comp. entry			-0.048* (0.022)	-0.048* (0.022)	-0.048* (0.022)
Competition			-0.590** (0.197)	-0.598** (0.196)	-0.720*** (0.197)
Profitability				0.417 (0.356)	6.807*** (1.224)
Profitability ²					-7.228*** (1.402)
R ²	0.403	0.414	0.421	0.421	0.433
Likelihood ratio test	827.2***	856.9***	876.1***	877.4***	910.4***
Score (logrank) test	1,101***	1,134	1,160***	1,160***	1,174***

Standard errors in parentheses

[†] , * , ** , and *** significant at $p < 0.10$, $p < 0.05$, $p < 0.01$, and $p < 0.001$ respectively

Next, Gaba and colleagues (2002) note that in industries with more competitors, a large number of firms may identify themselves as first entrants. As a result, an analysis that considers market entry based upon a continuous measure of time elapsed is preferable. Consistent with this idea, cox-proportional hazards regression models are used in this analysis, with the outcome being the log of the hazard rate of entry into China.

4 Results

Table 2 presents the results from five models on entry into China. Model 1 includes firm-specific control variables, model 2 includes firm-specific and host-country control variables, and model 3 incorporates control variables related to the US legal industry and local home markets. As expected, the control for firm size results in positive and significant estimates ($p < 0.001$) across all of the models. This result suggests that size is associated with earlier foreign market entry. Similarly, international experience also results in consistently positive and significant estimates as expected ($p < 0.001$ and $p < 0.01$), suggesting that firms with prior international experience enter markets earlier. Next, estimates on firm age are consistently negative and significant ($p < 0.001$). This result lends support for the view that younger firms may be more interested in international opportunities. Next, the control variable for domestic offices resulted in positive estimates with some of the betas at p-values lower than a 5-percent threshold for significance. This result lends support to the idea that firms with greater numbers of domestic offices may have developed experiential knowledge that encourages earlier foreign market entry. However, the inconsistency in levels of significance for the domestic offices variable encourage caution in interpretation and support our decision to check the robustness of hypothesized results using models that do not include this control variable. Next, as predicted, the ratio of associates-to-partners results in negative and significant estimates ($p < 0.001$), suggesting that highly leveraged firms may be slower to enter new markets. Also, as expected, practice concentration results in negative and significant estimates ($p < 0.01$ and $p < 0.05$) suggesting that more concentrated legal practices are associated with later market entry. Next, having previously established an office in Hong Kong results in positive and significant estimates ($P < 0.001$), suggesting that this experience serves to reduce perceived liability of foreignness and is associated with quicker entry into the Chinese market.

Next, contrary to expectation, control variables for market size and political risk both resulted in non-significant estimates. However, these results are consistent with the findings of Coeurderoy and Murray (2008), who note that while host-country factors may be important for location decisions, speed of entry seems to depend more upon firm-specific factors. One host-country control variable, licensing reforms, did result in negative and significant estimates ($p < 0.01$ and $p < 0.001$). This result suggests that while the reforms on foreign law firm operations in China did open the door to maintaining a wider geographic presence, the additional regulations designed to protect domestic players may have actually discouraged earlier entry of foreign firms.

In terms of the home-market control variable for environmental dynamism, none of the resulting estimates were significant. This suggests that in the current empirical context, home-market dynamism does not appear to be related to speed of market entry. Additionally, contrary to our prediction, entry by competitors in the prior year results in negative and significant estimates ($p < 0.05$) in most of the models. These estimates suggest that in the current empirical context, firms may enter a little later if more of their competitors have already entered. And finally, the

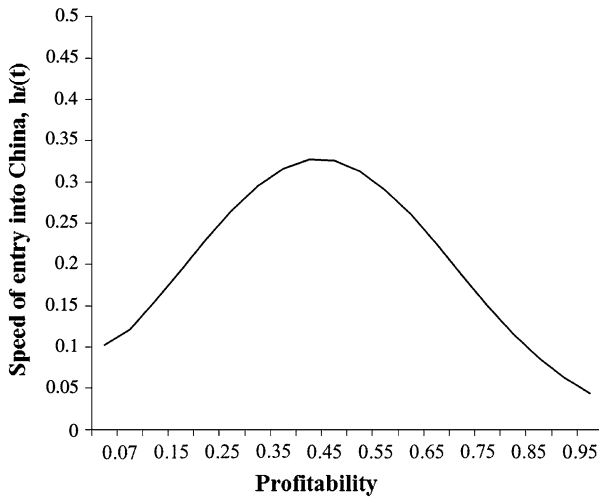


Fig. 1 Profitability and speed of China entry

estimate for local home-market competitive intensity results in negative and significant estimates ($p < 0.001$), which is contrary to evidence from a number of exploratory studies which surveyed practitioners in service industries (Cicic et al. 1999; Winsted and Patterson 1998). A potential explanation for this result may be that increased competition by itself occupies the attention of managing partners and may create reluctance to devote resources to entering foreign markets without immediate positive performance consequences.

Looking at changes in entry speed predicted by one standard deviation increases for each control variable, it appears as though having a previously existing office in Hong Kong does the most to increase speed of entry into China. In addition, increases in firm size results in the second greatest change in entry speed, followed by the ratio of associates to partners, firm age, licensing reforms, prior international experience, practice concentration, and prior entry of competitors, respectively.

Next, model 5 includes the quadratic function of profitability, to test our hypothesis. The resulting estimates show a positive and significant estimate for profitability ($p < 0.001$) and a negative and significant estimate for the quadratic function of profitability ($p < 0.001$). Additionally, these results are consistent in an unreported version of the model without a control variable for domestic offices. These results reflect the theoretical argument presented above and the graphed relationship between profitability and speed of entry into China in Fig. 1 supports the single hypothesis in this study.

5 Conclusion and Discussion

This study is one of the first to look at the relationship between profitability and market entry timing as a continuous measure of time elapsed, rather than order of

entry. It is important to focus on relative profitability and speed of entry because research has largely centered on the consequences of order of entry (Hsu and Chen 2009; Luo 1995; Mascarenhas 1992a, b), without filling gaps in our understanding of antecedents to speed of entry (Gaba et al. 2002). The distinction between speed of entry and order of entry is an important one, as the abilities of early entrants to create first-mover advantages will be dependent upon them having sufficient lead times to create such advantages. Simple categorizations based upon order of entry do not accurately capture differences in lead times.

The results of this analysis suggest that there is an inverted U-shaped relationship between profitability and speed of entry into foreign markets, with less-profitable firms entering earlier than the most profitable firms and the least profitable firms, who lack the resources needed for international expansion. In addition, the differences in entry speeds between the most profitable firms and firms in the middle-range of profitability appear to be quite large, suggesting that firms which rapidly enter foreign markets to compete indirectly with more profitable competitors, may indeed have opportunities to create first-mover advantages.

And finally, this is one of the first studies to look at factors associated with market entry timing in professional service firms. It is important to consider service contexts in international strategy research because of the importance of services to both developed and developing economies (UNCTAD 2004). For practitioners, these results mean that the speed of foreign market entry of local competitors may be anticipated based upon relative profitability. It follows that the most profitable firms should make an objective assessment of their resources and capabilities, to determine whether they could continuously serve markets from a distance, or overcome first-mover advantages of less-profitable competitors who are likely enter foreign markets earlier.

Finally, like all research, this study is not without limitations. In particular, this analysis uses data on entry into a single host country, by firms from a single home country operating in a single professional services industry. The advantage of this approach is that we need fewer controls and there is potentially a greater level of internal validity, while the disadvantage of this approach is that caution must be taken in generalizing the results of this study, and additional research is needed to replicate and extend this analysis in new empirical contexts.

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