

The Impact of Firm Competencies on Market Entry Success

Evidence of the High-tech Industry in Emerging Market

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Abstract

This study integrates three firm competencies: business network (BN), new product development (NPD), and marketing management (MM) for market entry success of the high-tech industry in emerging market. Using data from 55 biopharmaceutical multinational companies (MNEs) in China, this study applies structural equation modeling technique with confirmatory factor analysis for testing and estimating relationships. The results show that the entry success is directly influenced by new product development competence, whereas others obtain indirect affect. The results also suggest the critical role of business network invested prior and during the entry process, while marketing management acts as catalyst between business network and new product development. In this case business network significantly supports the development of both marketing management and new product development competencies, while the marketing management significantly supports the new product development then finally affects the market entry success.

Introduction

What drives firm entry success of the high-tech industry in emerging market has lately received attention in international business. As believed to have potential for future growth, many MNEs put high capital venture of investment and expand into emerging market^[21]. Previous studies have partially contributed to determine key factors for market entry. In general, they can be categorized into two groups: studies that highlighted the success factor to enter emerging market, and studies which focus on success factor for the high-tech industry. Although previous studies took different approaches and research focuses, a common pattern among them is that they underlined the critical role of firm competencies as a factor for enhancing entry success. Previous studies have discussed about the types of competencies needed in a limited

scope. While some studies highlighted NPD competence and innovation as firm competencies^[33], the others took further view by exploring marketing competence as the important element in the high-tech product commercialization^[31, 36]. On the other hand, some studies focused on emerging market and underlined the critical role of networking to minimize entry risk^[22]. Broader studies took further step by observing simultaneously the product development and marketing competencies^[4, 7], or investigating the role of networking and innovation^[27, 30] while the some others studied on networking and marketing^[14, 38] at the same time. Thus, with the growth of the high-tech industry in emerging market worldwide, a study which simultaneously covers three competencies is necessary so as to provide a comprehensive finds as compared to the previous. Moreover, due to the limited previous research which covers the high-tech industry in emerging markets, we are eager to explore the development of firm competencies for entry success by combining existing theory and empirical study to 55 biopharmaceutical MNEs in China.

Therefore, in this paper we simultaneously explore the impact of three firm competencies: business network, new product development, marketing management competencies to market entry success by applying structural equation modeling (SEM) technique. We choose China to represent the emerging market since it is the largest market in the world in this regards^[21, 16] pharmaceutical industry is considered as a representative setting of the high-tech industry since it is characterized as strongly science based, nimble, and innovation, and within the industry the firms is far more radical than in the other industries. In short, this study has two purposes: (1) to identify and integrate the three firm competencies needed, (2) to justify the relationship among each competence and analyze its effect to entry success.

Conceptualization and Hypothesis

Competence is a bundle of constituent skills and technologies and becomes a source of competitive advantages^[29]. How the core competencies of a firm drive MES can be regarded in two perspectives. The resource based view (RBV) literature suggests that competencies are catalysts to asset accumulation which underpin the competitive advantages of firms^[35], making a contribution to value and act as a gateway to new markets^[10]. Thus, through competencies development, a firm is able to accumulate the asset stocks required to exploit cost and differentiation drivers in ways which a competitor cannot. On the other hand, the industrial organization (IO) and strategic management frameworks underline the necessity to overcome entry barrier in new market^[28]. Specifically, through competencies a firm can accumulate its strength^[28] and is able to reduce market entry barriers^[26].

New Product Development Competence

While previous publications mostly underline the importance of R&D, technological innovation and technology leadership for high-tech industry success^[20], in a wider view^[33, 4] underlined NPD as a firm competence where it is a key driver in establishing competitive advantage in worldwide markets, and acts as an important element to compete effectively in today's global business environment^[34]. In the context of the biopharmaceutical industry in China, NPD competence is important with some reasons. First, product development and process innovation plays a key role in the transition of products from bench to market^[19], where these competencies positively drive the firm development speed and contribute to the firm renewal^[11].

^{30, 31]}. Second, it takes longer time to develop biopharmaceutical products, which averagely takes up to 15 years from scientific discovery to commercialization than traditional pharmaceutical, thus the ability to design effective and efficient NPD becomes critical to reduce the cost ^[12]. The third reason is the nature of competition stipulates MNEs to build competitive NPD since the biopharmaceutical sector in China has gone from solely imitating to the development of new innovative products ^[8]. Fourth is the growing of the biopharmaceutical market in China is larger than 18% per year ^[9] which indicates open opportunities for selling innovative biologics medicines especially in developed cities on the east coast such as Beijing, Shanghai, and Guangzhou. In short, these demonstrate that firms with NPD competence in developing unique medicines, and having strong internal R&D can enjoy greater international entry success ^[37], and this leads to our first hypothesis:

***Hypothesis 1:** When a high-tech firm entering emerging markets, the degree of the firm's new product development (NPD) competence positively affects the market entry success of the firm.*

Marketing Management Competence

In the biotech sector, many previous publications over looked key innovation outcomes for high-tech industry, such as those related to R&D performance ^[20]. However, to successfully deploy resources, firms need to develop marketing capabilities that enable them to repeatedly deliver desired benefit bundles to customers ^[36]. Previous studies on market orientation have shown that market-oriented conduct generally has a positive impact on market success ^[31]. Specifically, the MM competence enables the realization of firm strategy (i.e., differentiation, cost, and product market strategy), leading to increased market and financial performance ^[36]. At the project level, marketing capabilities are not only useful in the final positioning and launch of the medicines but also contribute to provide knowledge related to the opportunity of the potential candidate molecule and identify the right technological avenue ^[7]. With these understanding, we underline the important role of marketing in market entry process, and this leads to our second hypothesis:

***Hypothesis 2:** When a high-tech firm entering emerging market, the degree of the firm's marketing management (MM) competence positively affects the market entry success of the firm.*

Business Network Competence

Networks are vital for firms to discover opportunities, to the testing the ideas, and garner resources for the formation of the new organization ^[2], and enable a company to establish and use relationships with other organizations ^[30]. Therefore, a firm with high level of networking can get better position to find business opportunities and achieve better performance ^[17]. In the context of international market entry, BN is necessary when the firm asset specificity and internal competencies relatively low, while the environmental and behavioral uncertainty is high. To minimize the risk, a firm considering deploying these assets in collaboration with other organizations in international markets thus concerns about the perceived risk of maladaptation and opportunism ^[1]. When network fail, it is due to inter-firm conflict, displacement, lack of scale, external disruption and lack of infrastructure ^[27]. For high-tech industry there are 2 types of partnerships formed through networking: partnership-based linkages and sponsorship-based linkages ^[17]. Partnership-based linkages are cooperative, bilateral relationships in which a partner gives and takes resources and maintains long-term ties (e.g., networking with other firms, universities and research center, social institutions, and venture associations), while sponsorship-

based linkages represent unilateral relationships in that the outside party furnishes support without a quid pro quo such as governmental agencies.

Under the partnership-based scheme, this study identifies two types of partnership. First, the R&D partnership represents the relationship between firms and academic researchers (e.g., universities, R&D centers). Second is the inter-organizational network which covers relationship with enterprises (e.g., suppliers, channel distributors, other firms), financial institutions (e.g., banks, venture capitals), and relationship with social institutions (e.g., consumers, NGOs, publics). By having network partners, a firm can acquire information, knowledge, and resources ^[18], helping the firm move down the learning curve and accelerate their sales into foreign markets ^[24]. The relationship with other enterprises whose business and products are based on biotechnology can relieve a firm to deal with entry barriers, such as access to research expertise, linkages to universities, economies of scope in R&D or economies of scale in production ^[13]. Furthermore, network competence is also needed to overcome entry barriers by building alliances with local partners that are capable, well-connected, willing to cooperate and share the same objectives. For instance, networking in terms of technological alliances with other firms provides relatively rapidly changing and complex technological knowledge that is important for establishing an advantage over indigenous foreign competitors ^[3]. Marketing alliances with channel distributors, on the other hand, provide relatively stable knowledge for helping ventures conduct business operations successfully in international markets ^[38]. In short, networking can be assumed to have effect on the product development of a firm (i.e., R&D partnership, technological and production alliances) and marketing process (i.e., distribution channeling), which in turn contributes to entry success. These lead to our third and fourth hypothesis.

Hypothesis 3: *When a high-tech firm entering emerging markets, the degree of the firm's business network (BN) competence positively supports the new product development (NPD) competence.*

Hypothesis 4: *When a high-tech firm entering emerging markets, the degree of the firm's business network (BN) competence positively supports the marketing management (MM) competence.*

Under the sponsorship-based scheme, this study identifies the necessity to develop relationships with government agencies or *guanxi*. It is crucial for MNEs to develop good relationship with key government for several reasons ^[14]: (1) all business relationships in China involve some kind of encounter with the government, as the country remains a party-state in which the government holds absolute power, assuming the roles of legislator, law enforcer and judge; (2) the government owns vital resources such as land and banks, and has control over all major types of media; (3) it wields significant influence over other stakeholders. Based on foregoing discussion, we underline the need for a firm to develop a competence in managing its network, and this leads to our fifth hypothesis.

Hypothesis 5: *When a high-tech firm entering emerging markets, the degree of the firm's business network (BN) competence positively affects the market entry success.*

The above hypotheses are summarized in Figure 1, and this conceptual model will be empirically examined in the next section.

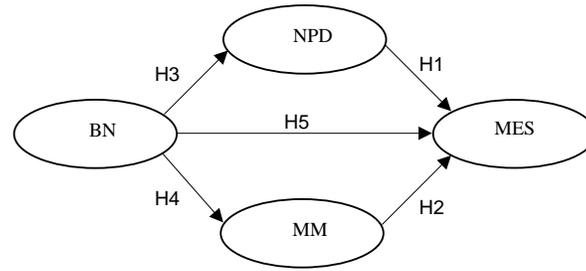


Figure 1 The conceptual model (base model)

Data Collection

Considering the conceptual model depicted in Figure 1, a four-part questionnaire encompasses NPD, MM, BN, MES was developed. The measures were adapted from previous studies. Basically networking is adapted from ^[17], NPD adapted from ^[11], marketing competence adapted from ^[36], while market entry success adapted from ^[25]. Moreover, data were collected from a sample of 55 biopharmaceutical MNEs in China with various international experiences and business types. We sent the questionnaire to the related department which is responsible for market entry process (i.e., business development, marketing department) by regular postal and email, asking the respondents related to company overview, firm competencies and MES. On the other hand, we ensure our respondents are of top management (at least manager) who has expertise and experience in handling the market entry project. Thus we believe it results in a very high quality of answers given. Most of the sample MNEs are having more than 20 years of experience, while in terms of the SMEs, mostly are having more than 16 years of experiences in the biopharmaceutical industry with last position as marketing director, general marketing or marketing manager.

Hypothesis Testing Results

Before testing the hypothesis, psychometric analyses were performed to assess the measurement scales. The reliability assessment was developed based on item to total correlation and Cronbach α coefficient > 0.7 indicates acceptable reliability for capturing the dimensions ^[23]. The convergent validity was analyzed using factor analysis, in which only one factor is extracted and explained variance should exceed 0.5. Discriminant validity was assessed following the guidelines by ^[15] where the average variance extracted of each construct exceeded the 0.5. In addition, the composite reliability of the four construct are suggested to exceed appropriate level > 0.7 . A further check on discriminant validity was conducted by comparing the correlations between any two constructs to the corresponding square root of average variance extracted (AVE) of the constructs. Greater square root of AVE is indicating the measures reliability and validity. Table 1 provides the results of reliability and convergent validity. Based on these evidences, in general the psychometric analyses results support the scale to be used in subsequent analyses.

Table 1 Results of the scale reliability and convergent validity

Construct	Indicator (S=sum scale; I=item)	Item-to- total correlation	Cronbach's alpha (α standardized)	Variance explained by first factor	Composite reliability	Average variance extracted
Business network competencies (BN)	GR (S)	0.91	0.93	0.88	0.96	0.65
	ION (S)	0.88				
	RDP (S)	0.79				
New product development competencies (NPD)	RDC (S)	0.79	0.89	0.90	0.93	0.86
	IPP (S)	0.79				
Marketing management competencies (MM)	CD (S)	0.90	0.95	0.88	0.97	0.90
	MP (S)	0.87				
	BR (S)	0.88				
	IM (S)	0.90				
Market entry success (MES)	Item 1 (I)	0.66	0.79	0.64	0.79	0.53
	Item 2 (I)	0.52				
	Item 3 (I)	0.63				
	Item 4 (I)	0.71				

Furthermore, confirmatory factor analysis (CFA) as a structural equation modeling technique was used to test the hypothesis on the effect of three firm competencies on MES. We input the covariance matrix of 10 indicators with maximum likelihood analysis, and apply IBM SPSS Amos software 7.0 to perform the structural equation model. The results of the conceptual model (base model) as described in Figure 1 indicate only BN positively supports the NPD and MM competencies (H3 and H4), while the other hypotheses are not significant. Therefore, we eliminate the insignificant relationships and develop model 2 (modified model) which gains better fitness compared to the base model, as shown in Table 2. In this study, we connect MM to NPD (MM \rightarrow NPD) as previous study suggested this relationship^[4,7], and gain significant result at $p < 0.1$. On the other hand, we kept the connection of NPD to MES since it has positive standardized estimate coefficient and is supported by previous study which indicates the necessity of NPD^[11]. Following this line, we find the NPD \rightarrow MES is significant at $p < 0.05$ and in overall, we generate better fitness model as compared to the base model. We use several fitness indices to assess the adequacy of the model. First, the ratio of chi-square over the degree of freedom (*Chi-square/df*) < 3 represents acceptable model fit. Second, the goodness-of-fit index (GFI), the adjusted goodness-of-fit index (AGFI) and the comparative fit index (CFI) must be greater than 0.9^[5]. Third, the root mean square error of approximation (RMSEA) should be < 0.08 to represent model fit^[6], while root mean square residual (RMR) should not exceed 0.1. In general, both models fulfill the fitness test even though one of the criteria AGFI only yields ≥ 0.80 . However, in this study we found model 2 (modified model) generates better fitness indicated by higher AGFI and lower RMSEA; therefore, further analysis only focuses on model 2 (modified model).

Table 2 Hypothesis Testing Pertaining to Model 1 and Model 2

Model 1 (base model)	Standardized estimate	t-value	Model 2 (modified model)	Standardized estimate	t-value
BN → NPD	0.989	14.14***	BN → NPD	0.557	2.091**
BN → MM	0.980	11.60***	BN → MM	0.967	11.46***
BN → MES	-1.812	-0.361 ^{ns}	MM → NPD	0.425	1.613*
NPD → MES	3.905	0.964 ^{ns}	NPD → MES	0.693	2.165**
MM → MES	-1.583	-0.656 ^{ns}			
<i>Chi-square/df</i>		1.07	<i>Chi-square/df</i>		1.04
<i>GFI</i>		0.91	<i>GFI</i>		0.91
<i>AGFI</i>		0.80	<i>AGFI</i>		0.82
<i>CFI</i>		0.99	<i>CFI</i>		0.99
<i>RMSEA</i>		0.04	<i>RMSEA</i>		0.02
<i>RMR</i>		0.01	<i>RMR</i>		0.01

Significant at: * $p < 0.1$ ** $p < 0.05$ *** $p < 0.01$

GFI (goodness fit index); *AGFI* (adjusted goodness of fit index); *CFI* (comparative fit index);

RMSEA (root mean square error of approximation); *RMR* (root mean square residual)

Discussion and Conclusions

First, as shown in table 2, we find BN yields an indirect effect to MES, through its role in supporting NPD and MM. These findings, therefore, are consistent with several prior studies. In term of NPD – NPD relationship, Pittaway^[27] showed an evidence of significant relationship between BN and product process innovations, while^[17] specifically highlighted the partnership with the government, R&D center, university, and other institutions positively supports the internal capabilities of a firm. In terms BN – MM relationship, we highlight a similar finding with^[38] which empirically demonstrates the significant role of network cohesion in marketing alliances for helping a firm conduct business operations successfully in international markets, whereas^[30] stated when a firm failing in managing BN, the strategic flexibility of the firm will be limited to its in-house resources. This limitation, however, would be inefficient given the increasing pace of change in contemporary markets and the complexity of new technologies. A surprising result shows that BN does not directly affect MES. One possible explanation of this finding is that BN is needed as a prerequisite for building partnerships^[30]. Thus this leads us to a broaden understanding that only claiming BN is not enough; nevertheless the capability of a firm in utilizing networks to build a partnership can leverage the competencies of the firm (i.e., NPD, MM) is more critical. Our finds explains why^[17] did not find an expected direct relationship between BN and the startup performance of a firm; whereas the study found BN have an indirect effect to the performance of a firm through internal capabilities enhancement. Second, our study finds MM results to indirect affect to market entry success. Specifically MM significantly supports NPD, which in turn can affect MES. This finding, however, is in line with the study from^[4, 7, 32]. As MM enables a firm to gain market knowledge which helps initiate the innovation process, it will positively affect the innovation capability of a firm, product development, and the cycle time of NPD. Therefore, this also explains the study from^[31] which empirically found MM does not directly affect the start-up speed of a high-tech firm, but it highlighted MM significantly contributed to leverage product competitiveness which in turn can affect the speed performance

of a firm. This study contributes to current literature in three respects. First, it contributes to prior literature by integrating three competencies which offers more comprehensive perspective to understand the firm competencies needed to achieve entry success. Second, it strengthens previous studies which mostly underlined research development (R&D), technological innovation, and product development for high-tech industry success. Third, even though this study emphasizes the critical role of new product development competence, we highlight the business network as the prerequisite for entry success of high-tech industry in emerging market. In terms of managerial implications, it suggests that MNEs need to put efforts in developing those three firm competencies in order to success in entering emerging market. While new product development competence supports MNEs to provide innovative high-tech product, networking with government (building *guanxi*) and other institutions enable MNEs to develop partnership and gain benefits to support the product development and marketing competencies. Finally, in addition to perform a critical role in product commercialization, marketing management competence can support the product development which in turn can affect the market entry success.

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