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Preemption and entry timing

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ESM0612 pre-emption and entry timing

Definition

Although pure pre-emption – the idea that the first entrant can monopolize a market – once received much theoretical interest, contemporary strategy scholarship emphasizes more subtle and contingent entry timing effects instead – that is, conditions under which a firm may benefit from being an early, as opposed to intermediate (or late) entrant, with increasing recognition of the importance of endogenous firm characteristics and choices.

Abstract

Entry timing research examines how firm performance varies, possibly non-monotonically, with the order (also known as order of entry) or elapsed time since first entry into a new market. While the pre-emption literature in economics focuses on assumptions for a first entrant to monopolize a market, contemporary strategy scholarship emphasizes more subtle and contingent entry timing effects – with recognition of the importance of endogenous firm characteristics (e.g., complementary assets) and choices (e.g., modes of expansion or entry), and industry contingencies (e.g., knowledge tacitness). Ground-breaking applications of entry timing concepts pertain to international management as well as innovation contexts.

Contemporary strategic management research addresses the time-bound, evolutionary processes whereby firms gain, maintain and lose distinctive competitive positions. In this context, an intriguing extreme solution could be found in early game-theoretic work about the possibility of preempting a market – that is, obtaining a durable monopoly by the mere fact of being the first entrant. [Gilbert and Newbery \(1982\)](#) derived an influential model whereby an incumbent can secure a future monopoly via ‘sleepers’ patenting, and concluded that monopoly may hence arise without market failure. However, they and subsequent researchers described multiple caveats: foremost, uncertainty may hinder both the assessment of rival threat and the conduct of pre-emptive R&D; and heterogeneity of the market space or bundling of complementary product may prevent hermetic pre-emption, especially with low exit costs for potential entrants (for a review see [Reinganum, 1989](#)). Besides lacking empirical contents, this literature has largely faded because of two other limitations. It hinges on the artefact of perfect patents, and thus only has a bearing on (some) industries dominated by technological competition – and even then, early pre-emption scholars noted that

patents may not actually secure monopoly ([Katz and Shapiro, 1987](#)); and, while many pre-emption models hinged on incumbents having superior incentives, mechanically they revolved around which firm had lower costs or superior ability to accelerate innovation – effectively, factors better explained in resource-based and dynamic capabilities theorizing ([Choi, 1996](#); [Ofek and Sarvary, 2003](#); [Lieberman and Montgomery, 1998](#)). Nevertheless, the pre-emption literature has served to inform subsequent strategy research on the pros (and cons) of early market entry.

The strategy literature on entry timing has grown to address a broader question: Under what conditions does a firm stand to benefit by entering a market early, rather than at an intermediate or late stage? This question is typically addressed by examination of the ranking of cumulative entries, that is, order of entry (OoE) effects. [Lieberman and Montgomery's \(1988\)](#) seminal paper set the ground for such research by identifying not just potential sources of first-mover advantage (FMA) (technological leadership, pre-emption, buyer switching costs), but also of first-mover disadvantages (free-riding by followers, resolution of technological or market uncertainty, technological discontinuities, incumbent inertia); and by pointing to the importance of studying mechanisms that enhance (moderate) FMA, and to the endogeneity of first-mover opportunity given differential proficiency (and luck).

Empirically, strategy research has shown that any FMA when moving into a new product market is contingent: [Mascarenhas \(1992\)](#) found a first-mover effect, but subject to erosion over time (i.e., weak pre-emption); while [Makadok \(1998\)](#) found early-mover effects, but without consistent difference between first and second to fifth movers, and subject to erosion with cumulative rivals entries. Paralleling the pre-emption literature, much FMA research dealt with the effect of technological innovation. The context of technology remains fruitful for FMA research, but another prime context for entry timing research is international expansion, as that offers the opportunity to model entry decisions and outcomes in multiple countries over time and thus control for both observed and unobserved firm characteristics ([Martin, Swaminathan and Tihanyi, 2007](#)). International business research has investigated OoE effects across the range of entry ranks, unlike the technology literature, and has shown that the propensity for foreign entry ([Martin, Swaminathan and Mitchell, 1998](#))

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and the resulting performance (subsidiary survival: Mitchell, Shaver and Yeung, 1994) are positively associated with an intermediate OoE (neither leader nor laggard) relative to other foreign entrants. Strategy scholars typically attribute these effects to information spillovers, negated beyond some point by competitive pressure.

Extant research further highlights contingencies on OoE effects. The instances below, at the firm, industry and technology (knowledge resource) level respectively, illustrate the importance of this approach. Most prominently, firm-level complementary assets (Teece, 1986; Mitchell, 1989) can compensate for lateness in entry, so OoE strategy should be a function of complementary assets too. At the industry level, OoE effects vary with the pace of market evolution (Agarwal, Sarkar and Echambadi, 2002; Suarez and Lanzolla, 2007). Finally, features of knowledge (especially its tacitness) determine the time to imitation (Zander and Kogut, 1995), and thus the durability of an early-entry effect. OoE research offers plentiful research opportunities yet. Among them are risk-return profiles of OoE strategies (Robinson, Kalyanaram and Urban, 1994); quality tradeoffs in speeding entry and lower OoE (Salomon and Martin, 2008); and, critically given the contingencies above, the distinction between OoE and calendar timing (Martin, Swaminathan and Mitchell, 1998) and their potentially interacting effects, especially on corporate performance. Further research on entry timing conditions is thus well warranted.

XAVIER MARTIN

See also

COMPETITIVE ADVANTAGES; INDUSTRIAL ORGANIZATION; INNOVATION STRATEGIES; INTELLECTUAL CAPITAL

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