

# IMPACT OF ORDER OF ENTRY ON BUSINESS PERFORMANCE

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## ABSTRACT

*Many research found that pioneer firm have high business performance than early follower but many research found that the follower firms can bit the pioneer performance. From the equivocal finding the researcher want to investigate whether the pioneer firms perform better than early follower and the relationship order of entry and business performance (market share and ROI). The Population are 465 textile companies with 200 employees listed in BPS Manufacturing Directory. CEO or Managing Director were selected as respondent. The results found that there is significant difference between order of entry on market share and ROI. This research also found that the pioneer performs better than early follower in achieving business performance (market share and ROI) and order of entry have positive relationship with business performance ( market share and ROI).*

**Keywords : Order of Entry, Bussiness Performance, ROI, Market Share**

## I. INTRODUCTION

Changes in the business environment such as changes in technology and customer needs also yields impact on competitive advantage. Thus, any business firm can anticipate to these conditions to create opportunities to be the first mover (Lieberman and Montgomery 1988). The first firm to enter the market for specific products or services commonly believed to accumulate a long-term competitive advantages.

These advantages are thought to be directly drive from the firm's competitive head start over rivals and results in a dominant and stable market positions. The order of entry into the market and the market share is believed to be causally related (Urban and Star, 1991). On the average, the first movers usually have high market shares than their early followers and turn have higher market share compared to the later entries (Miller, William, and Robert, 1989).

On the contrary, if a late mover uses product/strategy innovation, it will have a chance to overtake the pioneer if the first mover makes mistakes (Carpenter and Nakamoto, 1989; Shankar, Carpenter, and Krisnamurthi,

1998). Furthermore, Freshman et al. (1990) discovered that order of entry has no direct significant effect on market shares. Their empirical findings were not consistent with the findings of other studies, hence they went to state that pioneer entry is not dependent on the order of entry.

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## **II. LITERATURE REVIEW**

### **II.1 Order of Entry**

According to PIMS, the order of entry defined as the first time a business enters the market. Similarly, Robinson and Fornell (1985) defines order of entry as a categorical measure that classifies a business type as a market pioneer, an early or late follower.

Lambkin (1988) concludes that order of entry is not a random and independent variable but, part of a broader pattern of strategy among business enters the market at different times and tends to differ in many aspects in its structures and strategies. Robinson, Fornell, and Sullivan (1992), concluded that order of entry covers for the first entry of pioneers, and late follower.

### **II.2 Pioneer**

According to PIMS (Profit Impact of Market Project) defines market pioneer as one of the first to develop products or services. Robinson and Fornell (1985) define first mover as one of the pioneers to first develop such as products or services. This means that a first mover may or may not be the first to enter the market and is perceived only as one of the first few firms. Robinson, et al. (1992) also define it as first entrant as the first business to develop such products and services. Urban, et al. (1986) stated that a pioneer is the first product to enter the market. Lieberman and Montgomery (1988) concluded that the standard definition for identifying the pioneer should be based on market entry.

### **II.3 Early Follower**

Karakaya and Stahl (1989) define 'early follower' as the business that develops the products and services after the firm enter the market with a new product. Carpenter et al, (1998) have mentioned that an early follower can outsell pioneers in at least two ways. First, an early follower can beat a pioneer at the pioneers own game when the pioneer plays the category concept and buyer preferences a category. These preferences are the foundation for competition

between the pioneer and early follower in a category as cited by Carpenter and Nakamoto, 1996). By understanding these preferences an early follower can identify a superior but overlooked product position, undercut the pioneer on prices or out advertise or out-distribute the pioneer, thereby beating the pioneer at its own game. Second, an early follower can overtake a pioneer through innovation.

#### **II.4 Business Performance**

This research concerned with obtaining (return of investment) ROI, and market position (Market share) in order to measure business performance. The researcher has chosen these dimensions as it is commonly used by companies. Market share and ROI are the results of good management according to (Buzzell, Gale and Sultan, 1974). Meanwhile, market share and ROI was used to measure as marketing efficiency by Srinivasan and Murthi (1996).

#### **II.5 Order of Entry and Market Share**

Many empirical studies showed that long term benefits are often captured by the first mover. Bond and Lean (1977) examined the beginnings and subsequent market shares of 11 prescription drugs innovation and classified it into two categories such as oral diuretics and anti-anginals, the result indicates that although a pioneer may have received substantial sales advantage, it can still be overtaken by later entrants via new benefit. Biggadike (1976) studied the entry of 40 industrial product into new markets represented by large firms of the PIMS project the studies found out that first entrant shares showed decrease performance when new entrants came to the market. In the same manner, Whitten (1979) found that the late entrant brands that entered early in growing market were significantly differentiated and gain a substantial share in the market or even took the place of first entry brand's position. In another study, Robinson and Fornell (1985) found that the empirical association between order of entry and market share almost strong between market share and ROI and the pioneers had higher market share than the early followers. On the other hand, Lambkin (1988) also found order of entry has a significant effect on market share for both start-up and adolescent businesses and the pioneer entry strategy has the strongest positive impact on market share and profitability followed by late entrant. For adolescent business the pioneers had high market share than early followers and late entrant. Kalyanaram and Kardes (1992) made a study on 24 MBA students to rate the attractiveness of 36 attributes pertaining to a target product on microwave popcorn. The results showed that the pioneer is strongly preferred over the second entrant; the pioneer is strongly preferred over the second entrant; there is significant main effect of order of entry with pioneer and lower for the second entrant.

### III. RESEARCH METHODOLOGY

#### III.1 Definitions

Order of entry defined as the first time a business enters the market (PIMS, 1968).

The pioneer is categorized as a business that develops/creates products or services for the market as well as the one that introduces new technology, process, skills, and resources to the market (Robinson and Fornell, 1985; Robinson et al., 1992; Lieberman and Montgomery, 1988).

Early follower as the business that develops/creates the products or services after the pioneer firm (Karakaya and Stahl, 1989).

#### III.2 Variables Measurement

The order of entry is a categorical variable classified as *pioneers and early followers*. Order of entry is a dummy variable, where the pioneers are coded 1 and the early follower coded as 0. The business performance instrument consisted of four items which has been adopted by Khandwalla (1977).

#### Theoretical Framework



#### III.3 Hypotheses Development

In previous studies on the relationship between order of entry and business performance revealed an equivocal result. For instance, Flaterty (1983) stated that there is a little simple correlation between order of entry and market share. Meanwhile, most of the research findings cited that order of entry have significant effect on business performance (Robinson and Fornell, 1985; Lambkin, 1988; Carpenter and Nakamoto, 1989, and Michell, 1991. On the contrary, Freshtman (1990) also argued that there is no relationship between order of entry with business performance. Many authors have cited that pioneer organizations have high business performance e.g. Srinivasan, 1988; Lambkin, 1988; Robinson, 1988; Michell, 1991; Robinson, Claes, and Sulivasan, 1992). These findings also were supported by other authors where the early entry beat

pioneers in attaining high market share. For instance, Carpenter and Nakamoto (1989); Shankar, Carpenter and Krishnamurthi (1998).

Based on the rationalities above, the following hypotheses are formulated :

- H1 : There is a significant difference between pioneers and early followers on market share
- H2 : There is a significant difference between pioneers and early followers on ROI
- H3 : There is positive relationship between order of entry and market share
- H4 : There is positive relationship between order of entry and ROI

#### **III.4 Population**

The researcher using population in this study, approximately about 465 managing directors or CEOs from 465 textile companies in Indonesia were selected based from the Statistical Central Bureau (BPS). The managing directors or top management were also asked to participate in the research with using questionnaires.

#### **III.5 Data Collection Method**

The data collections were in two stages. Firstly, the researcher contacts 465 companies to confirm its involvement. Secondly, after obtaining the companies cooperation to joint the research, the questionnaires were mailed to them with the expectations to fill out the questionnaire and send back to the researcher. The responses on the company surveys are high, from a total of 465 questionnaires sent to the firms, about 110 were received yielding a response rate of 23.66 %. Unusable responses rates in textiles industry were about 31 or 6.67 %. Non-useable responses had incomplete answer (more than 50 %).

#### **III.6 Statistical Methods**

The first preliminary hypothesis are stated in the alternative form that, there is a significant difference between pioneer and early follower on market shares. A t-test on pioneer and early follower dimension was also applied. To test the second hypothesis. The t-test has also applied to allow the possibility of accepting the hypothesis.

$$Y = \beta_0 + \beta_1 OE$$

Where :

- Y = Business performance (market share and ROI)
- OE = Order of entry

### III.6.1 Goodness Of Data

The goodness of data reveal the data is reliable and valid because the Cronbach Alfa for Market share 0.899, ROI 0.828, and Business Performance 0.99 respectively.

### III.6.2 The Non Response Bias Tests

A T-test Anova was used to test non response bias in this study. A total of 17 pioneer responses and 41 early follower were used. Based on the P value can be concluded that there is no serious non response bias in the sample (P value > 0.05). It means this research is not important to add the response in order to analysis data.

**Table 1**  
**T-test for Mean Difference Between Pioneer, and Early Follower**

	<b>Pioneer ( n = 17 )</b>	<b>Early Follower ( n = 41 )</b>	<b>t- value</b>	<b>P</b>
Market Share	3.559	3.219	.1799	.081
ROI	3.500	3.244	.1330	.193

## IV. Results

The same table revealed that there are significant differences between the pioneers and early followers in achieving market share (significant-t 0.000). Pioneer has a mean score of 3.730 while early follower has mean score 3.125. The pioneers as well as the early follower also revealed significant differences in achieving ROI (significant-t 0.001). The pioneer has a mean score of 3.608 and early follower has mean score of 3.132. This results indicated that pioneer has the ability to enhance their performance better than early follower. Thus, hypothesis 1 and 2 are accepted.

**Table 2**  
**Differences Order of Entry and Business Performance**

<b>No.</b>	<b>Variable</b>	<b>Sample</b>	<b>Mean Score</b>	<b>Significant-t</b>
1	Market share	Pioneer	3.730	0.000
		Early Follower	3.125	0.000
2	ROI	Pioneer	3.608	0.001
		Early Follower	3.132	0.001

Whether the pioneers perform better than the early follower, achieving business performance was tested from a constant and the beta value of

regression equation assuming that other dimensions are constant. The equation results revealed that the pioneer performed better than early follower to achieve market shares and ROI (see the example below).

(a) Pioneer

$$\begin{aligned} Y \text{ m.share} &= \beta_0 + \beta_1 \text{OE} \\ &= 3.207 + (1) 3.730 \\ &= 6.937 \end{aligned}$$

(b) Early Follower

$$\begin{aligned} Y \text{m.sahare} &= \beta_0 + \beta_1 \text{OE} \\ &= 0 + (1) 3.730 \\ &= 3.730 \end{aligned}$$

(c) Pioneer

$$\begin{aligned} Y \text{ ROI} &= \beta_0 + \beta_1 \text{OE} \\ &= 3.229 + (1) 3.608 \\ &= 6.837 \end{aligned}$$

(d) Early Follower

$$\begin{aligned} Y \text{ ROI} &= \beta_0 + \beta_1 \text{OE} \\ &= 0 + (1) 3.608 \\ &= 3.708 \end{aligned}$$

The results of regression analyses indicate that 9.1 % of market share performance could be explained by order of entry, or by  $R^2$  with .091 and F is significant with .002 or it means is significant at 5 % level (Table 3). Thus, hypothesis 3 is accepted. The results show  $R^2$  of .065 and significant F .008 or significant at 5 percent level. This indicates that 6.5 percent of ROI performance can be explained by order of entry (Table 4 ). Partial regression coefficient is .183 and significant-t of .008 or significant at 5 percent level and hypothesis 4 is accepted.

**Table 3.**  
**Order of Entry and Market Share Performance**

Variables	Coefficient	Sta. Error	t-Value	Significant-t
(Constant)	3.207	0.076	42.432	0.000
Order of Entry	0.227	0.070	3.259	0.002
$R^2$	0.091			

**Table 4.**  
**Order of Entry and ROI Performance**

Variables	Coefficient	Stan. Error	t-Value	Significant-t
(Constant)	3.229	0.074	43.595	0.000
Order of Entry	0.183	0.068	2.695	0.008
$R^2$	0.065			

## V. Discussion and Implication

Hypothesis one, there is significant difference between order of entry and market share. The mean scores indicated that there are significant different between the pioneer and early follower in achieving market share at .001 level. Moreover, order of entry also reveals significant differences in ROI, where mean score indicated significant differences between the pioneer and early follower in achieving ROI at .001 level. Thus, the hypothesis 1 and hypothesis 2 are accepted. Meanwhile, by applying the constant and beta value to regression model it revealed that the pioneer performs better to achieve higher market share and higher ROI than the early follower. The third hypothesis stated that there is a positive relationship between order of entry and market share. The results showed order of entry significantly influence market share. Hypothesis 4 also has same result with hypothesis 3 where order of entry has a positive relationship with ROI. The results similar with previous studies where clearly demonstrated differences between order of entry to achieve business performance from the studies of ( Bond and Lean, 1977; Flaterty, (1983); Robinson and Fornell, (1985); Robinson, (1988); Lambkin, (1988) ; Srinivasan, (1988); and Kalyanaram and Kardes, (1992). In all these studies, it was found that the pioneers performs better than early follower in achieving business performance and has significantly higher performance (market share and ROI) than early follower.

## Research Limitation

The study is limited for the following reasons :

The first limitation is based only on the perception of CEO or marketing managers, especially on the dimension of business performance. Furthermore, the findings could have been better if the data sources taken from the company factual/objective condition, where the analyses can be more accurate. Secondly, the study was conducted only for a single business sector (textile business), thus the findings could not be generalized and applied to other business sectors. Thirdly, this study did not measure the overall performance in regression testing. Thus, by comparing both measurement (individual and overall performance) was more accurate.

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