

Drivers of Success for Market Entry into China and India

China and India are the fastest-growing major markets in the world and the most popular markets for foreign entrants. However, no study has examined the success or failure of these entries. Using a new definition of success and a uniquely compiled archival database, the authors analyze whether and why firms that entered China and India succeeded or failed. The most important findings are rather counterintuitive: Smaller firms are more successful than larger firms, and firms entering more open emerging markets have less success. Other findings are that success is greater with earlier entry, greater control of entry mode, and shorter cultural and economic distances between the home and the host countries. Importantly, with or without control for these drivers, firms have less success in India than in China. The authors discuss the reasons for and implications of these findings.

Keywords: market entry, India, China, success factors

China and India have become major players in the world economy. For example, China and India have led all world economies with gross domestic product (GDP) growth rates of more than 9% in recent years (Vietor 2007). Because of this rapid growth, China and India are currently the third- and fifth-largest economies in purchasing power parity (Wilson and Purushothaman 2003). Some forecasts suggest that by 2020, China and India will pass Japan in GDP in purchasing power parity and that by 2050 China will be the leading economy of the world, followed by the United States and India (Hawksworth 2006).

This remarkable economic resurgence and future promise of China and India have made entering these markets critical to the survival and success of many firms (Wilson and Purushothaman 2003). Of the *Fortune* 500, 400 firms now operate in China (Fishman 2005), and 220 of the top 500 firms operate in India (India Brand Equity Foundation 2005). In 2005, China alone attracted approximately \$1 billion per week in foreign direct investment. Whereas firms in the earlier years rushed into these countries primarily for reasons such as acquiring resources, securing key supplies, accessing low-cost factors, and diversifying sources of supply (Vernon, Wells, and Rangan 1996), the rising income of the local populace is now resulting in market-seeking behavior.

How have foreign entrants performed in these emerging markets? What drivers have led to their success or failure? Firms have been reluctant to divulge specific information on performance, and researchers have neglected to study this issue; thus, it has gone largely unexamined. As a result,

despite almost three decades of history, it is unclear how firms should enter such emerging markets. Examples of unexplained success and failure abound. Unilever launched 14 joint ventures in China from 1986 to 1999 (Dasgupta and Dutta 2004) and was in the red for most of the time. On the contrary, Procter & Gamble (P&G) ended up as the market leader in almost all categories it introduced in China (Tunistra 2000).

Although the few empirical studies on entry success (e.g., Gielens and Dekimpe 2007; Luo 1998; Pan, Li, and Tse 1999) have made important contributions to the topic, they suffer from at least one of the following limitations: First, the studies focus on a single country—China in most cases. Second, the studies use a restrictive definition of success, such as market share, which does not encapsulate degrees of success and failure. Third, the studies often focus on one particular industry. Fourth, the studies do not cover success or failure over time from the beginning of the liberalization of the Chinese and Indian economies. Against this setting, it is unclear whether these findings are generalizable across industries and emerging markets.

The current study attempts to analyze the success and failure of firms entering the major emerging markets of China and India. It addresses the following research questions: What drives the success of entry into China and India? Is entry into China more or less successful than that into India? and How do entry mode, entry timing, and firm size (firm-level variables) and economic distance, cultural distance, country risk, and country openness (country-level variables) affect success?

Our contributions to the literature are as follows: First, we propose a richer measure for success and failure, which encapsulates longitudinal historical accounts. Second, we relate our measure of success to underlying drivers that emerge from a vast body of interdisciplinary research over decades. Third, we focus on both the major emerging markets: China and India. Fourth, because of the paucity of systematic or syndicated data, we use the historical method (Golder and Tellis 1993) to collect data to answer these questions.

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We organize the rest of the article into three sections. First, we discuss the drivers of success or failure and pose specific research questions. Second, we describe the method and results of historical analysis. Third, we discuss the findings, implications, and limitations of our study.

The Drivers of Entry Success

Researchers have not yet developed a single coherent theory of the drivers of success or failure of entry in emerging markets. This section reviews the prior literature on international market entry to identify the drivers of success or failure in market entry, proposes a conceptual framework for these drivers, and derives some questions for empirical research. The interdisciplinary literature spans marketing, strategy, and international business (Dunning 1988; Root and Ahmed 1979; Zhao, Luo, and Suh 2004). We use the terms “firm” to describe the entrant, “host country” to describe China or India, “home country” to describe the firm’s country of origin, and “foreign country” to describe any other country that may be involved.

We suggest two broad constructs that drive firm performance in international entry: firm differentiation and country differentiation. Within firm differentiation, two key constructs are firm strategy and firm resources. The most important strategies in international entry are entry mode and entry timing. We measure firm resources with one key variable, firm size.

Within country differentiation, the key construct is host-country characteristics. Among these characteristics, the two that we identify as important are country openness and country risk.

In addition to these constructs, firm and country differentiation together shape host–home location. Two variables of this latter construct that are most extensively discussed in the literature are cultural distance and economic distance. We measure firm performance by the historical success of firms as reported in archival records.

Figure 1 shows a conceptual framework of how the constructs are related to one another and which variables we use to measure these constructs. The subsequent subsections discuss the role of each of these independent variables in affecting historical success or failure.

Entry Mode

The mode of entry is a fundamental decision a firm makes when it enters a new market because the choice of entry automatically constrains the firm’s marketing and production strategy. The mode of entry also affects how a firm faces the challenges of entering a new country and deploying new skills to market its product successfully (Gillespie, Jeannet, and Hennessy 2007). A firm entering a foreign market faces an array of choices to serve the market. In an exhaustive survey of the different modes of market entry, Root (1994) identifies 15 different forms. Following Root, we categorize these into the following five main classes, listed in order of increasing control:

1. *Export*: a firm’s sales of goods/services produced in the home market and sold in the host country through an entity in the host country.

2. *License and franchise*: a formal permission or right offered to a firm or agent located in a host country to use a home firm’s proprietary technology or other knowledge resources in return for payment.
3. *Alliance*: agreement and collaboration between a firm in the home market and a firm located in a host country to share activities in the host country.
4. *Joint venture*: shared ownership of an entity located in a host country by two partners, one located in the home country and the other located in the host country.
5. *Wholly owned subsidiary*: complete ownership of an entity located in a host country by a firm located in the home country to manufacture or perform value addition or sell goods/services in the host country.

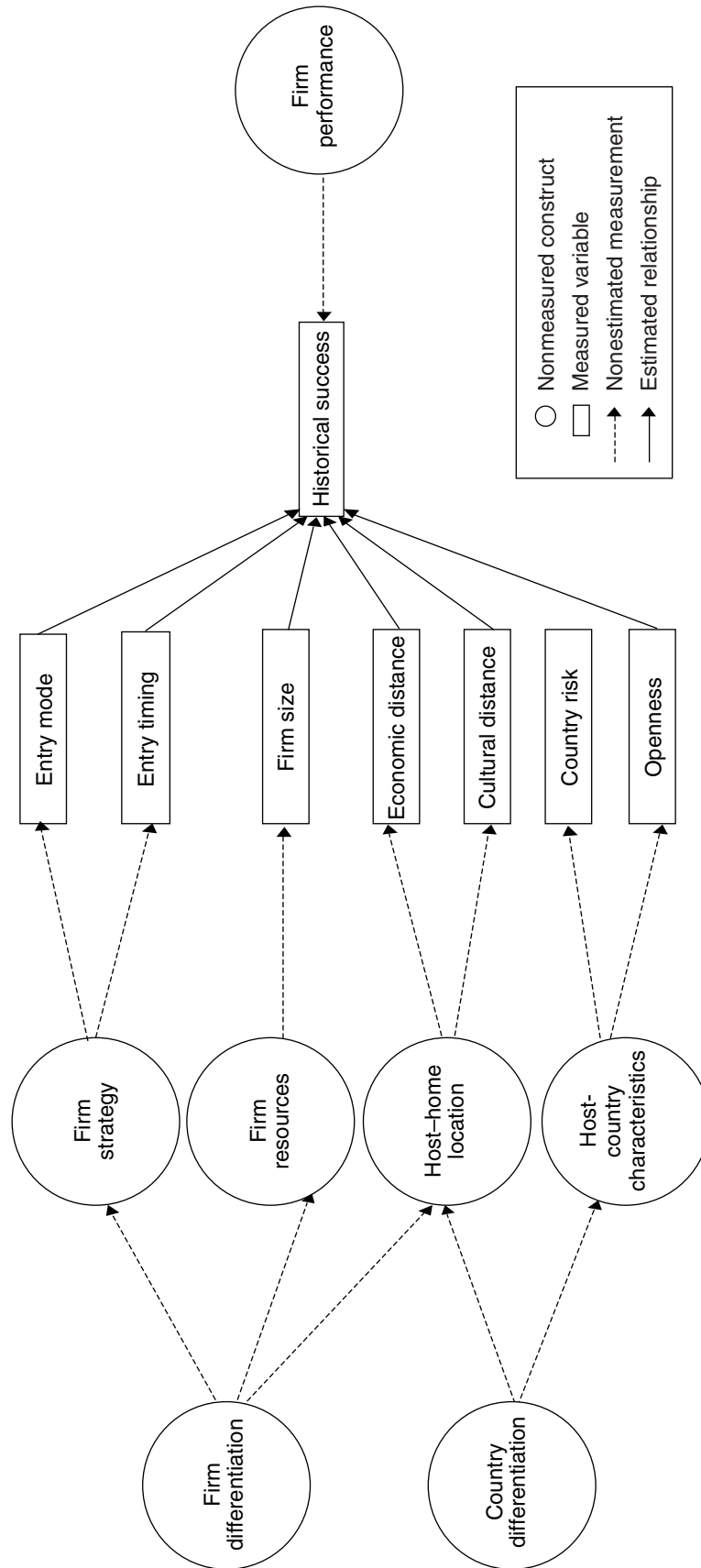
A firm can choose any of these entry modes or some combination of them to enter a host country. The key attribute that distinguishes the different modes of entry is the degree to which they give a firm control over its key marketing resources (Anderson and Gatignon 1986). At one end of the spectrum is the export of goods, which has the lowest degree of control. Licenses, franchises, and various forms of joint venture provide a progressively increasing degree of control for the firm; at the other end of the spectrum, ownership-based entries, such as wholly owned subsidiaries, afford the highest control.

Two opposing theories suggest alternative outcomes as control increases: the resource-based view and the transactions cost view. The resource-based view holds that as the degree of control increases, the firm’s chances of success increase because the firm can deploy key resources that are essential to success (Gatignon and Anderson 1988; Isobe, Makino, and Montgomery 2000). These resources can be intangible properties, such as brand equity and marketing knowledge (Arnold 2004), or tangible properties, such as a patent or a process blueprint. Control over such properties gives a firm the freedom to deploy resources flexibly, thus enhancing its chances of success. In the context of emerging markets, control provides two key benefits. First, it safeguards key resources from leakage, such as patent theft. Second, it allows for internal operational control, which is essential to a firm’s success in emerging markets (Luo 2001). In addition, a firm can control key complementary resources, such as access to local distribution channels, which can be important to its success in any country.

The transaction cost view holds that costs increase with increasing control of the mode of entry. Control and commitment are inextricably linked in mode of entry (Luo 2001). High control in entry strategies entails high commitment. Transaction cost theory suggests that the higher the resource commitment and desired control of an entry mode, the higher is the cost. Wholly owned subsidiaries and joint ventures are high-cost entry modes because of the level of resource commitment needed to set up operations (Pan and Chi 1999). These higher costs imply that higher levels of investments are needed for the firm to break even and make a profit. Taken together, these arguments lead to our first specific research question:

- Q₁: Does success in entering emerging markets increase or decrease with the degree of control?

FIGURE 1
Conceptual Framework: Drivers of Entry Success



Entry Timing

In addition to the entry mode, the role of market entry timing is critical in emerging markets (Pan and Chi 1999). However, the direction of the effect is not clear. The literature suggests reasons that early entry into international markets could favor or hurt success.

On the one hand, early entry has many advantages. First, the early entrant can lock up access to key resources, such as distribution channels and suppliers. Second, early entrants have the opportunity to set the pattern of consumer preference (Carpenter and Nakamoto 1989; Mitchell 1999), which may disadvantage later entrants. Third, early entrants can benefit from being the first to exploit governmental concessions and incentives, which governments often offer to attract such entrants (Pan and Chi 1999). Fourth, early entrants can time their entry to exploit the “strategic window” of an expanding market and observe and learn market attributes for a longer period. Pan and Chi (1999, p. 360) report that “[multinational corporations] that started their production in China in an earlier year had a higher level of profit than those that began in a later year.”

On the other hand, Golder and Tellis (1993) find that pioneers are often not the long-term winners in a market. Using U.S. data, they show that in several categories, “best” beats “first” (Tellis and Golder 2001). In the international context, pioneers may fail for several reasons. First, firms that rush in first may not be aware of the pitfalls of the newly opened emerging market. Second, returns to the early entrants might be too low compared with their investments, especially because infrastructure is not yet fully developed. Third, latter entrants have a flatter learning curve because they can learn from the early entrants’ errors (Fujikawa and Quelch 1998). These three factors may be responsible for the failure of many early entrants in some markets (Arnold 2004). These arguments lead to our second research question:

Q₂: Does success in entering emerging markets increase or decrease with early entry?

Firm Size

New trade theories developed by Krugman (1980) and Porter (1990) suggest that firm-specific advantages play an important role in international trade. Although small firms (with fewer than 500 employees) today account for 30% of U.S. exports (Cateora and Graham 2006), in general, larger U.S. firms have been more able to participate in global markets than smaller firms because of their financial and managerial resources (Terpstra, Sarathy, and Russow 2006). The literature is not unanimous about the role of size in the success of firms; some researchers assert that large size helps, whereas others assert that it hurts.

There are several reasons larger firms might have greater success than smaller firms. First, larger firms have recourse to more resources or can commandeer more resources than smaller firms (Bonaccorsi 1992). For example, Coke was able to purchase the leading cola brand in India, Thums Up, to open its entry into India (Ramaswami and Namakumari 2004). Second, larger firms are more likely to possess a greater wealth of product-specific and

marketing-specific knowledge than smaller firms. For example, Nestlé has a portfolio of 7695 brands to choose from and a huge organizational history of international expansion to help it exploit any new market that it enters (Parsons 1996). Third, larger firms are more capable of sustaining periods of negative performance on entry into a host country than smaller firms. Luo (1997) finds that size favors performance, even after controlling for mode of entry.

Conversely, the experience of many large firms shows that size is no guarantee for success. The recent withdrawal of Wal-Mart first from Korea and then from Germany is a case in point (*The Economist* 2006). Researchers have unearthed some explanations for this result. Large size diminishes organizational flexibility because of increasing bureaucracy (Hitt, Ireland, and Hoskisson 2003). This bureaucratic effect also impairs innovative ability (Chandy and Tellis 2000). In line with this finding, Cooper and Kleinschmidt (1985) show that export success is negatively correlated with firm size in the high-tech electronics industry. These arguments lead to our third research question:

Q₃: Are smaller or larger firms more successful in entering emerging markets?

Economic Distance

Economic distance is a measure of economic disparity between two countries. Firms find it easy to deal with host countries that are close in economic distance from their home country for several reasons. First, countries close in economic development have similar market segments that can afford to consume similar types of goods and services. Thus, knowledge about market demand transfers easily from home to host country. Second, countries close in economic development have similar physical infrastructure, such as airports, roadways, railways, and seaports. Thus, firms serving a host country with an infrastructure similar to the home country will enjoy efficiencies in its operations, thus lowering costs. Third, firms develop competencies or knowledge-based resources that are related to the markets they serve (Madhok 1997). These resources can be best leveraged in countries that are similar in economic development because the skills learned in one market can be replicated in or adapted to the new markets. Firms entering countries that are widely different economically from their home country need to adjust to the new market conditions, thus reducing their likelihood of success (Dunning 1998). These arguments suggest our fourth research question:

Q₄: Does entry success decrease with greater economic distance?

Cultural Distance

Consumers are not driven by economic considerations alone. The underlying cultural dimensions of a society affect its consumption pattern beyond what economic laws predict (De Mooij 2004). “Culture” is usually defined as shared values and meanings of the members of a society. It affects not only the underlying behavior of customers in a market but also the execution and implementation of marketing and management strategies (Kogut and Singh 1988). For exam-

ple, cultural distance affects how well partners in a joint venture interact over the cultural divide. Thus, cultural distance has a direct impact on the effectiveness of the entry.

Evidence of failures caused by insensitivity to cultural differences abounds. The much-discussed troubles of Euro Disney provide a classic example of how Disney executives failed to adjust for the cultural differences between the United States and Europe. Cultural differences affect several aspects of consumer behavior as well as a firm's marketing mix. It affects not only the attribute levels of products (Leclerc, Schmitt, and Dube 1994) and the efficiency of the marketing programs (Tse, Vetinsky, and Wehrung 1988) but also how customers derive meanings about the brand or product. Mistakes arising from misunderstandings of brand names are legion.

The tendency of firms to start their international marketing activities in countries similar to their own is another example of how culture influences market entry. Several studies have shown that the sequential path of internationalization is determined by cultural distance to enhance the chances of successful entry (Czinkota 1982). Firms usually begin internationalizing by entering countries that are culturally close to them. For example, Toyota began exporting by first selling to the Southeast Asian countries (Terpstra, Sarathy, and Russow 2006). In addition to geographic proximity, cultural similarities may also lead U.S. firms to trade with Canada, European countries to trade with one another, and Japanese firms to focus on Asia (Johansson 2006). Frankel and Rose (2002) show that linguistic similarity is a far more powerful determinant of the volume of trade between countries than economic factors, such as a common currency. Barkema, Bell, and Pennings (1996) also show that cultural barriers "punctuate" organizational learning, lowering firms' longevity in countries with greater cultural distance. These arguments suggest our fifth research question:

Q₅: Does success into emerging markets decrease with greater cultural distance?

Country Risk

Erb, Harvey, and Viskanta (1995) define "country risk" as uncertainty about the environment, which has three sources: political, financial, and economic. Political risk is the risk that laws and regulations in the host country will be changed adversely against a foreign firm. These could be of a regulatory nature, such as the imposition of tariffs, or of a political nature, such as unrest caused by pressure groups (Spar 1997). At its severest, political risks may cause confiscation of assets without adequate compensation (Hawkins, Mintz, and Provissiero 1976).

Financial and economic risks manifest in several ways. They could take the form of (1) recessions or market downturns, (2) currency crises, or (3) sudden bursts of inflation. Most of these factors arise from imbalances in the underlying economic fundamentals of the host country, such as a balance of payment crisis. Recessions result from business cycles inherent in any economy (Lucas 1987). The origins of currency crises could be a progressively deteriorating trade imbalance (e.g., India in the late 1980s) or a loss of

faith by the international financial system on the country's ability to meet its international debt obligations (e.g., Argentina in 2001). Whatever the source of the problem, a fall in the currency rate will lead to a fall in revenues and profits (Shapiro 1985). Differential inflationary pressures between the home and the host country could also pose a risk. Inflation directly affects the price-demand structure of a firm. It can also affect the firm indirectly through its adverse effects on exchange rates (Erb, Harvey, and Viskanta 1995; Frankel and Mussa 1980).

Country risk can reduce entry success in emerging markets in two ways. First, it can cause firms to lose money suddenly, precipitating a financial crisis. Consider P&G in Russia. Its "optimistic projections of Russia were shattered on a single day in the summer of 1998" (Dyer, Dalzell, and Olegario 2004, p. 336). The sudden devaluation of the ruble on August 17, 1998, triggered a deep financial crisis as the annual projected dollar revenues shrank to half, far below P&G's ability to service debts. A more serious problem was the uncertainty over how long the crisis would last. Second, high country risk and past experiences of risk can lead firms to underinvest or delay investments, resulting in lower success over time. Unilever was cautious and delayed entry into China, "especially in view of the past difficult experiences with the Soviet Union" (Jones 2005, p. 160), another high-risk country. These arguments suggest our sixth research question:

Q₆: Does success of entry into emerging markets decrease with country risk?

Country Openness

The term "openness" refers to the lack of regulatory and other obstacles to entry of foreign firms. Openness could either increase or decrease entry success. On the one hand, openness could increase success for three reasons. First, it stimulates demand by increasing the variety of products offered for sale in the market. Second, it increases competition on quality and thus improves the level of quality supplied. Third, as the economy opens up, competition increases efficiency and lowers prices, resulting in further increases in demand. Consider the Indian automotive industry. Until the early 1980s, the protected local market was dominated by two highly inefficient players—Hindustan Motors (HM) and Premier Auto Limited (PAL)—which offered just 2 basic car models, priced at approximately \$20,000. The government allowed Suzuki to set up a joint venture in 1983. This increased the number of car models in the Indian market to 3, and the quality of all cars on the market, including those from HM and PAL, improved dramatically. In 1992, the remaining barriers for foreign firms were lifted. Since then, 30 car models have been sold in India. Prices in all segments have steadily declined by 8%–10% a year, and the industry has tripled in size. The liberalization of the Indian telecommunications industry and the resultant boom in the sales of cell phones are other examples of how openness spurred growth in demand (Ramaswamy and Namakumari 2004). Evidence from China also shows that "growth acceleration has been associated with the opening of markets" (Naughton 2007, p. 7).

On the other hand, an open economy is a double-edged sword. Although openness makes entry easier for a target firm, it increases competition from other new foreign entrants. Increasing competition affects market success in several ways. First, even a small degree of competition is enough to lower prices significantly (Wallace 1998). Thus, competition keeps margins low, permitting only the most efficient to survive. Second, competition increases costs of purchases, the hiring of talent, and the marketing of products and services. Competitive pressures are a reason firm profitability has been shown to be lower for international markets than for domestic markets (Gestrin, Knight, and Rugman 2001). Third, competition causes firms to lose leadership if they make any strategic mistakes, such as targeting the wrong segment or pricing the product too high, both of which are common mistakes in entering emerging markets. Competitors are quick to pounce on any mistake and prevent firms from recovering lost ground. Thus, increasing openness increases competition and decreases success. These arguments suggest our seventh research question:

Q7: Does success of entry into emerging markets increase or decrease with country openness.

Summary

The prior sections show how three firm-level variables (mode of entry, timing of entry, and size) and four country-level variables (economic distance, cultural distance, risk, and openness) can affect the success or failure of a firm that is entering an emerging market. Next, we try to answer these questions through a historical analysis of entry into China and India.

Empirical Evidence

We carry out a historical analysis of market entry in two of the largest emerging markets to answer the research questions. We consider only the entry of firms that were not already set up in the years immediately before 1978 for China and 1991 for India. Historical analysis involves carefully assembling, critically examining, and summarizing the records of the past (Golder and Tellis 1993). This method is well suited for our purpose because it is based on neutral observers and factual data recorded at the time the success or failure of a firm's entry occurs. Historical analysis provides a powerful means of understanding marketing phenomena by recreating markets as they evolved (Golder 2000). It also responds to the call for historical research in this area (e.g., Jones and Khanna 2006). In particular, Mitra and Golder (2002, p. 382) recommend "longitudinal, archival-based studies of relative success of companies in multiple markets." This section presents the measures, procedure, sampling, and model of the empirics.

Measures

This subsection discusses the measures for the dependent variable and the seven independent variables: entry mode, entry timing, firm size, economic distance, cultural distance, and openness.

Dependent variable: success (or failure). Perhaps the most contentious issue in studying success and failure of international market entry is to define and measure it. This is so because firms do not divulge the internal parameters and measurements of success. Attempts to ascertain this by the survey method lead to the well-known self-reporting bias (Golder and Tellis 1993). In addition, success is a time-dependent phenomena, and at any given time, it may only be partial (Luo 1998). To circumvent this problem, researchers have used multiple measures of success, such as market share and profitability (Pan, Li, and Tse 1995), hazard rates (Li 1995), and timing (Luo 1998).

To arrive at an objective and comprehensive measure that can discriminate degrees of success, we used a content analysis of articles from several sources reporting on the performance of firms entering into China and India, and we derived numerical ratings. For the content analysis, we first developed a set of terms that reviewers use to describe success or failure of market entry. We then grouped these terms into five levels of increasing success, assessed on a five-point scale (see Appendix A). This graded measure of success enables us to measure degrees of success.

Entry mode. Anderson and Gatignon (1986) show how entry strategies can be categorized on the basis of the degree to which they allow a firm to control its entry into foreign markets. They categorize entry strategies as possessing low, medium, and high control over the firm's strategy. To calibrate the varying degrees of control, we used a six-point ordinal scale ranging from 1 ("low-control entry mode") to 5 ("high-control entry mode"), as follows: exports (1), alliances (2), franchise (3), joint ventures (4), equity joint ventures (4.5), and wholly owned subsidiaries (5).

Mixed entry modes, such as contract manufacturing, can be understood as a hybrid of existing modes. Idiosyncratic variations of the traditional entry modes, such as wet or dry licenses (see Luo 2000, p. 284), can also be defined within the scope of our scale. Firms with two entry modes for different products are considered two separate entries.

Timing. Our measure of timing is the number of years between a firm's market entry and the year of first deregulation by the host country. For China, we took 1978 as the first year of deregulation, and for India, we took 1991.

Firm size. To measure size of the firm, we used the year-end sales of the firm in the year of entry into the host country.

Economic distance. To measure economic distance, we followed the work of Mitra and Golder (2002). Thus:

$$(1) \quad ED_{smt} = |GNP_{st} - GNP_{mt}| + |G\hat{N}P_{st} - G\hat{N}P_{mt}| \\ + |\text{Infra}_{st} - \text{Infra}_{mt}| + |\text{Popdensity}_{st} - \text{Popdensity}_{mt}|,$$

where ED_{smt} is the economic distance between the host country s and the home country m in year t ; $GNP_{st, mt}$ and $G\hat{N}P_{st, mt}$ are the log of aggregate and per capita gross national product (GNP) for host country s and home country m , respectively, in year t ; $\text{Infra}_{st, mt}$ are the kilometers of road per square kilometer for host country s and home country m , respectively, in year t ; and $\text{Popdensity}_{st, mt}$ are

the population densities for host country *s* and home country *m*, respectively, in year *t*.

To capture the size of demand for a firm's goods in a host country, we used per capita GNP (Loree and Guisinger 1995). However, although per capita GNP provides a suitable measure for consumer goods, it does not give us a good measure for industrial products. To correct for this limitation, we used the aggregate GNP of the host country (Terpstra, Sarathy, and Russow 2006). We measured these variables in the year of entry and converted to their equivalent dollar values on the basis of year-end dollar exchange rates.

Cultural distance. We employed the measure of cultural distance between the host and the home countries from Hofstede's (1991) four cultural dimensions: power distance, individualism–collectivism, masculinity–femininity, and uncertainty avoidance. Following Kogut and Singh (1988), we collapsed the individual scores into a single number by taking the Euclidian distance of the four dimensions as follows:

$$(2) \quad CD_{smt} = \sum_{j=1}^4 \sqrt{(D_{jst} - D_{jmt})^2},$$

where CD_{smt} is the country distance score between host country *s* and home country *m* in year *t*, D_{jst} is the score on dimension *j* for host country *s*, and D_{jmt} is the score on dimension *j* for home country *m* both measured in year *t*. This measure of cultural distance has a long history of use in both the international marketing and the strategy literature (Mitra and Golder 2002).

Country risk. Our measure of country risk needs to capture political, regulatory, and economic sources of risk (Erb, Harvey, and Viskanta 1996; Simon 1984). Although several commercial agencies measure each of these components of country risk using proprietary methods, researchers in finance have shown that the ones used by the *International Country Risk Guide* possess the greatest forecast accuracy (Erb, Harvey, and Viskanta 1997). This measure of country risk is based on a multidimensional measure for each component of country risk through political, financial, and economic risk (for details, see Appendix A). We reverse-coded country risk relative to the United States, which has the highest score and the lowest risk.

Openness. Our measure of openness is based on the fraction of foreign direct investment as a function of the host country's GDP. We compiled this measure from the annual statistical surveys of China and India.

Procedure

The data for this study are a unique compilation from several sources (see Appendix B). The primary source for information about market entry and market success is from electronic sources, such as LexisNexis and ABI/INFORM. Golder and Tellis (1993) show that archival data must meet the following criteria to ensure validity:

- *Competence:* the capability of the informant to report correctly,
- *Neutrality:* the lack of vested interest by the informant of the report,

- *Reliability:* a long record for undisputed good reporting by the informant,
- *Corroboration:* confirmatory evidence from a similar source, and
- *Contemporaneity:* proximity of the time of the report to that of the event.

The competence criterion is met because the reports are by well-known sources and are from the time frame when the firms entered the host country. The objectivity criterion is satisfied because neutral commentators wrote the stories. The reliability criterion is satisfied because the sources are all reputable. The corroboration criterion is satisfied because at least two data sources are used to complete the details for each firm. Contemporaneity is satisfied because the electronic search engines sorted the articles with the oldest first to ensure that the reports closest to the event are included in the sample. We collected additional articles when necessary so that the data on success and failure would meet these criteria. We used hard-copy sources, such as books and country reports (e.g., International Monetary Fund country reports), to supplement the electronic sources. The period of the data coincides with the period in Study 1. The following is a step-by-step elaboration of this technique:

1. Locate articles on entry into China and India using key words.
2. Extract and save articles from Step 1, or when applicable, obtain hard copies. Extract information on firm names and enter this into a spreadsheet.
3. Extract phrases about the success or failure of the entry and record them in the same spreadsheet as that in Step 2.
4. Compile additional information on the mode of entry, performance of the firm in the host country, and year of entry by focusing the search on the firm and expanding the key words.

We study the information collected to arrive at the five-point scale for success and failure (see Appendix C). We recruited and trained two MBA students as research assistants for the study. The research assistants evaluated the language of each review using the five-point scale. They then converted the review into a numerical rating of success. We instructed them to treat the scale as continuous from 1 to 5. The assistants were allowed to consult the authors for any interpretive difficulties. We used the average rating from the two assistants for the analysis. The correlation coefficient of the coding between the two research assistants was .78. The interrater reliability, as measured by Cronbach's alpha, was .88. The research assistants were within one count of each other for 88% of the cases. All these statistics compare favorably with those of Chandy and colleagues (2001).

We retrieved and coded data on entry mode from the archival data. Data on sales at the time of entry were collected and recorded in millions of local currency primarily from three sources: COMPUSTAT tapes from the Wharton Research Data Services for U.S. firms and from firms' Web sites and Mergent Online database for non-U.S. firms. We converted all sales data into U.S. dollars for analysis. We collected data on cultural dimensions from the work of Hofstede (1991, 2001). We obtained economic measures from the *International Financial Statistics Yearbook*, a compila-

tion of annual national statistics prepared by the International Monetary Fund. This was also the source of foreign-exchange rates needed to convert sales figures and GNP data denominated in local currency into U.S. dollars. We used the year-end market exchange rates whenever available and government-nominated rates elsewhere. We acquired data on country risk for each year of interest from the *International Country Risk Guide*, which is available online from the Web site maintained by the PRS Group (<http://www.prsgroup.com>).

Sample

Beginning with 192 entries of firms into China and India that met with the outlined criteria, we found that 128 entries were into China and 64 were into India. The number of entries we found for India is substantially less given that India's major economic reforms took place 13 years after China's reforms began. In 9 cases, we could not obtain information on the mode of entry of the firms, and in another 11 cases, the exact nature of success or failure was not clear. For 9 additional cases, sales data were missing. These are non-U.S. firms that entered in the 1980s and early 1990s for which we could not obtain any records in the public domain. Missing sales values are replaced with the mean dollar sales value of the entire sample. Thus, the usable sample is 168 cases.

Model

To answer the research questions, we estimated the following regression model:

$$(3) \text{ Success}_{ismt} = \beta_1 \times \text{Entry mode}_{ism} + \beta_2 \times \text{Timing}_{ismt} + \beta_3 \times \text{Size}_{it} + \beta_4 \times \text{Cultural distance}_{smt} + \beta_5 \times \text{Economic distance}_{smt} + \beta_6 \times \text{Country risk}_{st} + \beta_7 \times \text{Openness}_{st} + \beta_8 \times \text{India} + \beta_9 \times \text{Entry mode}_{ism} \times \text{India} + \beta_{10} \times \text{Timing}_{ismt} \times \text{India} + \beta_{11} \times \text{Size}_{it} \times \text{India} + \beta_{12} \times \text{Economic distance}_{smt} \times \text{India} + \beta_{13} \times \text{Cultural distance}_{smt} \times \text{India} + \beta_{14} \times \text{Country risk}_{st} \times \text{India} + \beta_{15} \times \text{Openness}_{st} \times \text{India} + \epsilon_{ismt}$$

where *i* is a subscript for firm, *s* is a subscript for host country, *m* is a subscript for home country, and *t* is a subscript for time. Success is the success rating from 1 to 5, Entry mode is the categorical variable specifying the mode of entry chosen by the firm, Timing is the number of years between the year of a firm's entry and the start of economic reforms in the host country, Size is the logarithm of dollar value of sales (in million) in year of entry, Economic distance is given by Equation 1, Cultural distance is the difference between the host and the home countries in the composite measure we calculated from Hofstede's (1991) individual dimensions (Equation 2), Country risk is the overall country risk of the host country, Openness is a measure of the degree of participation of foreign firms in the host country, India is a dummy variable, β_1 – β_{15} are coeffi-

cients to be estimated, and ϵ_{ismt} is an error term initially assumed to be i.i.d. normal. To ascertain the heterogeneity of coefficients over China and India, we include a dummy variable for and interaction terms of India with each of the key independent variables.

Results

Descriptive Statistics

Table 1 provides the descriptive statistics for our sample of firms. The table shows that the dominant mode of new entry into China (1978–2005) and India (1991–2005) is the joint venture (41%), followed by the wholly owned subsidiary (33%) and the equity joint venture (10%). Exports, licensing, and franchising make up 4%, 7%, and 5%, respectively. Of the entering firms, 56% were from North America (United States and Canada), 23% were from Europe, and 21% were from Southeast Asia (including Australia and New Zealand).

Model Estimates

Table 2 reports results of the estimation of the model in Equation 3. To ascertain the effect of multicollinearity, if any, we provide estimates of running a simple regression with each independent variable alone (Columns 3 and 4), a full model with all important interaction terms (Columns 5 and 6), and a reduced model after dropping insignificant terms (Columns 7 and 8). Note that all the main effects are significantly different from 0. In addition, the main effect of India and three of the interaction terms with India (timing, economic distance, and cultural distance) are significantly different from 0, suggesting that these three drivers hold differently for India and China. Conversely, four of the interaction effects with India (entry mode, size, risk, and openness) are not significantly different from 0, suggesting that these four drivers hold equally well for China and India. The main effect for India is negative and significant, suggesting

TABLE 1
Descriptive Statistics

Variable	Number	Percentage
1. Mode of Entry		
a. Exports and branch subsidiaries	7	4
b. Licenses	12	7
c. Franchises and agreements	10	5
d. Joint ventures	75	41
e. Equity joint ventures	18	10
f. Wholly owned subsidiaries	61	33
2. Country of Origin of Firms		
a. North America	108	56
b. Europe	43	23
c. Southeast Asia, Australia, and New Zealand	41	21
3. Type of Industry		
a. Consumer nondurable	54	28
b. Consumer durable	86	46
c. Service	29	15
d. Industrial	23	11

TABLE 2
Regression of Success on Its Determinants

Dependent Variable (1)	Question (2)	Simple Regression Estimates		Full-Model Estimates		Reduced- Model Estimates	
		Estimate (3)	t (4)	Estimate (5)	t (6)	Estimate (7)	t (8)
Intercept				23.981	2.767**	20.040	3.031**
Entry mode	Q ₁	.261	2.946**	.273	2.396**	.288	3.521**
Timing	Q ₂	-.043	-2.662**	.236	1.531	.212	1.620
Size	Q ₃	-.121	-2.041**	-.141	-1.965*	-.146	-2.740**
Economic distance	Q ₄	-.002	-1.991**	-.008	-2.725**	-.007	-3.063**
Cultural distance	Q ₅	-.017	-2.168**	.008	.696	.006	.634
Country risk	Q ₆	.042	3.003**	.029	.848	.048	2.029**
Openness	Q ₇	-.038	-2.134**	.155	.164	-.085	-2.27**
India		-.630	-2.752**	-34.765	-3.165**	-32.295	-3.489**
Entry mode × India				.123	.680		
Timing × India				-.351	-1.999*	-.334	-2.193**
Size × India				.002	.016		
Economic distance × India				.011	2.620**	.011	3.110
Cultural distance × India				-.076	-2.457**	-.076	-2.670**
Country risk × India				.042	.816		
Openness × India				-.256	-.271		
Adjusted R ²				29.02%		28.43%	
F				4.279***		5.814***	
N				168		168	

* $p < .1$.

** $p < .05$.

*** $p < .001$.

that, in general, entry into India has been less successful than entry into China. Moreover, this effect is robust, holding equally strongly across all three specifications. The R-square is approximately 29%, which compares well with other studies (Gatignon and Anderson 1988; Pan, Li, and Tse 1999).

Drivers of Success or Failure

With reference to Q₁, the positive and highly significant coefficient for entry modes shows that those that allow for higher control tend to be more successful. The effect is robust and holds for all three model specifications (Columns 3–8 in Table 2) and holds equally strongly for China and India.

With reference to Q₂, the negative and highly significant coefficient for entry timing (Columns 3 and 4) shows that firms that entered earlier were more successful. However, this effect seems to hold only for India, as indicated by the negative and significant interaction term for India (Columns 5 and 6).

With reference to Q₃, the negative and significant coefficient for size shows that smaller firms have greater success in emerging markets. The effect is robust; it holds across all three specifications (Columns 3–8) and is equally strong for China and India (Columns 5 and 6).

With reference to Q₄, the negative and significant coefficient for economic distance shows that firms that enter host countries that are economically similar to the home country enjoy greater success. This effect is robust, and it holds across all three specifications (Columns 3–8). However, it is significantly weaker for India than for China (Columns 5 and 6).

With reference to Q₅, the negative and significant coefficient for cultural distance shows that firms that enter host countries that are culturally closer to the home country enjoy greater rates of success (Columns 3 and 4). However, this effect is not robust and does not hold in the presence of other variables. The effect holds in the expected direction only for India, as evidenced by the significant interaction effect with India (Columns 5 and 6).

With reference to Q₆, the positive and significant coefficient for country risk shows that greater risk of the host country leads to less success (Columns 3, 4, 7, and 8). Note that country risk is reverse coded, signifying higher scores for lower-risk countries. Moreover, this effect holds equally strong for China and India.

With reference to Q₇, the negative and significant coefficient for openness shows that greater openness lowers success (Columns 3, 4, 7, and 8). This effect holds equally strong for China and India.

Conclusion

Contribution

China and India are two of the largest emerging markets. They are growing quickly and are destined to rank among the top economies of the world in the next two or three decades. Firms are in a rush to enter these markets. However, the literature contains insufficient analysis of the drivers of success and failure of entry in these markets. Our study makes four distinct contributions in this area. First, we offer a richer definition of success and failure than prior studies. Second, we relate our measure of success to impor-

tant causal drivers, which emerge from a vast body of interdisciplinary research over decades. The results show which of these drivers are most important and whether the importance is generalizable or pertains to only one country. Third, we focus on both the major emerging markets of China and India. Fourth, we use a research method that is rarely used in this domain—namely, historical analysis. The main conclusions from our study are the following.

- Success is greater for entry into China than for entry into India.
- Success is greater for smaller firms than for larger firms.
- Success is greater for entry into emerging markets with less openness and less risk and those that are economically close to the home market.
- Success is greater for firms that use a mode of entry with greater control.
- Joint ventures are the most popular mode of entry, accounting for 41% of entry modes.

Discussion

Perhaps the most surprising finding is that success is substantially and significantly lower in India than in China. One possible reason for this is the immense diversity of India, which is characterized by inconsistent policy across Indian states and pockets of varying demand across the India market. A second possible reason is that India had an early history of capitalism with many entrenched private firms and brand names. Thus, entrants had greater native competition in India than in China. A third reason could be that China's infrastructure has been substantially superior to India's, making operations much easier for new entrants.

A second surprising finding is that smaller firms tend to be more successful than larger firms in entering emerging markets. This result is contrary to research findings, which have shown that a larger firm size correlates with greater success (e.g., Anderson and Gatignon 1986; Luo 1997). An example may clarify this result. General Motors, the largest automaker in sales, and Toyota, the largest in market capital, have struggled in India, whereas smaller rivals, such as Hyundai, have been successful. An explanation for this result is that the mere size of resources itself may not be the chief factor behind success. Control of resources and how they are deployed may lie at the heart of success in China and India because these markets are characterized by rapid environmental changes that require continuous adaptability and learning (Yan 1998). Thus, small firms with a less bureaucratic burden may be able to adapt more quickly (Hitt, Ireland, and Hoskisson 2003). Indeed, researchers in international marketing have found that smaller firms, given their smaller budgets, tend to collect first-hand information rather than sponsor third-party data collection (Hollensen 2004). Another explanation is that larger firms may be more confident or even arrogant about their resources, strengths, and prior successes and therefore may not try as hard to succeed as smaller firms (Chandy and Tellis 2000).

A third surprising result is that the openness of markets reduces success in both China and India. Intuitively, openness suggests easier entry and, thus, easier success. However, what is often overlooked is that what is true for one

entrant is also true for other entrants. Greater openness results in more firms from the same industries from multiple countries entering the fray. This competition puts downward pressure on margins, making it increasingly difficult for all firms to succeed. Thus, increasing openness increases competition and decreases success.

Consistent with this result, we find that earlier entrants enjoy greater success than later entrants, at least in India. This finding is consistent with prior studies (Pan and Chi 1999). Indeed, content analysis of archival reports of the reasons for success and failure shows that the speed of entry was mentioned 25 times in the reports. For example, P&G, which entered India much later than Unilever, does not have the market success of Unilever.

A strong finding of our study is that entry strategies that involve high levels of control (e.g., wholly owned subsidiaries) are more successful than those that involve low levels of control (e.g., licensing). For example, in China, FedEx, which operates as a wholly owned subsidiary, is more successful than UPS, which operates as a joint venture. Our results hold despite the possible entry restrictions on mode of entry that China and India have imposed. Restriction to entry usually forces firms to take low-control entry modes. However, we still have a large proportion of observations for high-control modes and find this variable to be highly significant.

Economic and cultural proximity between the home and the host country favors successful entry into emerging markets. For example, Charoen Pokphand Group, the Southeast Asian agribusiness conglomerate from Thailand, is more successful in China than Seagram, the agri-based firm of North America. The effect of cultural distance is far stronger in India than in China. Our content analysis of the archival reports indicates that one of the most frequently cited reasons (34 times) for success or failure in India is how well or poorly (respectively) the entrant adapts the product to the local culture. Surprisingly, even after several decades of international experience, many Western firms tend to impose Western consumption habits and production methods in emerging markets. For example, Kellogg initially failed to market cold breakfast cereal in India because of the strong Indian taste for hot breakfast foods.

Implications

This research has some important implications for entry into emerging markets. First, firms should consider not only the growth of emerging markets but also the success rates of prior entrants. In the case of the two countries under study, China seems to have a much higher success rate than India.

Second, the progressive opening of the economies of China and India does not mean that firms should wait to enter when entry gets easier. Easier entry applies to all firms, thus increasing competition. As China and India liberalize and deregulate even further, the increased competition will reduce success. Our data suggest that earlier entrants enjoy greater success. Thus, firms that enter later should be prepared for stiffer competition and probably less success.

Third, counter to widely held priors, small size itself should not deter firms from entering emerging markets. In

contrast, large firms should not assume that past success and deep resources will necessarily guarantee success.

Fourth, firms should choose the entry mode that affords them the greatest degree of control when entering emerging markets. Doing so implies not taking on partners and alliances in the host country, which may add to the cost and difficulty of entry. However, the greater control provides the entrant with an opportunity to compete on its own unique strengths, monitor success and failure closely, and make changes in strategy as soon as necessary.

Fifth, when entering emerging markets, firms should consider targets that are close to their home country in terms of economic and cultural distance. In particular, firms from developing countries may be more successful in entering emerging markets than those from developed countries, if the emerging markets are close to them in cultural or economic distance. An example is the inroads made by Chinese and South Korean firms into the emerging markets of India and Brazil.

Limitations and Further Research

Our study has several limitations that could benefit from further research. First, analysis of disaggregate firm-level variables, such as the level of investment in manufacturing and marketing, could further enlighten the issues. Second, research on whether and which firms learn from their mistakes would be helpful. Third, more precise measures of culture are in order. The standard country-level measures, such as Hofstede's (1991, 2001) cultural distance, are at a too aggregate level and are static in nature and may not reflect the regional differences and temporal changes in large countries, such as China and India. Fourth, the evolution of a firm's fortunes over time could lead to greater insights into how the firm adjusts its strategies to exploit the opportunities presented by emerging markets. Fourth, whereas economic and cultural distance measures are proxies of firm knowledge, other drivers, such as experience in similar markets, may be important proxies of firm knowledge. Fifth, entering firms may have faced regulatory restrictions over their choice of entry mode, which may have restricted the full set of options normally available.

Appendix A Details of Country Risk Calculation (from the *International Country Risk Guide*)

Political risk is calculated by assigning points to each of the following components: government stability, socioeconomic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religious tensions, law and order, ethnic tensions, democratic accountability, and bureaucracy quality.

Financial risk is calculated by assigning points to each of the following components: total foreign debt as a percentage of GDP, debt service as a percentage of exports of goods and services, current account as a percentage of exports of goods and services, international liquidity as months of import cover, and exchange rate stability as a percentage of change.

Economic risk is calculated by assigning points to each of the following components: real annual GDP growth, annual inflation rate, budget balance as a percentage of GDP, and current account as a percentage of GDP.

A composite country risk is produced by combining these three measures according to the following formula:

$$(A1) \quad \text{CPFER} = .5 (\text{PR} + \text{FR} + \text{ER}),$$

where CPER is a composite of political, financial, and economic risk ratings; PR is the total political risk indicators; FR is the total financial risk indicators; and ER is the total economic risk indicators. The highest overall rating (theoretically, 100) indicates the lowest risk, and the lowest rating (theoretically, 0) indicates the highest risk.

Appendix B Sources

India

American Chamber of Commerce
Asiaweek
BBC
Business India Intelligence
BusinessWeek
The Economic Times (India)
The Economist
Harvard Business Review
India Brand Equity Foundation
India Today
McKinsey
The New York Times
The Telegraph
The Times of India
The Wall Street Journal
The Wall Street Journal (Asia)

China

AmCham News
AmCham News: China Briefs
American Chamber of Commerce
Asiaweek
Bain Consulting Company
BBC
Business Times
Business-China.com
China Business Insight
China Wire
China Bulletin
The China Business Review
The Economist
Fortune
Global News Wire
Harvard Business Review
McKinsey
Mintel's Global New Products Database
People's Daily
South China Morning Post
The Wall Street Journal (Asia)
Xinhua News Agency

Appendix C Content Analysis Outline

The outline for evaluating success or failure of entry is given as follows:

Successful Entry: 5

- Making more margins than their global margin
- Market share leader
- Well-functioning partnership
- Above-average industry leadership
- Top three in industry profitability
- Top three in market share
- Exceeded investment criteria

Good Entry: 4

- Successfully selling
- Met investment criteria
- Increasing investments
- Growing shipments
- Rapidly evolved into a major force in the industry

Acceptable Entry: 3

- Hope to recover investment in time
- Entry awaiting removal of market restrictions
- Establish a beachhead
- Continuing operations

Poor Entry: 2

- No initial lead buyers
- Conflicting expectations
- Fail in system integration and optimization
- Struggled to make headway
- Underperformance
- Priced out
- Stiff competition
- Market restrictions
- Executives frustrated with entry

Failed Entry: 1

- Quit or withdrawal from market
- Break up with cessation of venture

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