

Incumbent firms' response strategies to foreign entrants

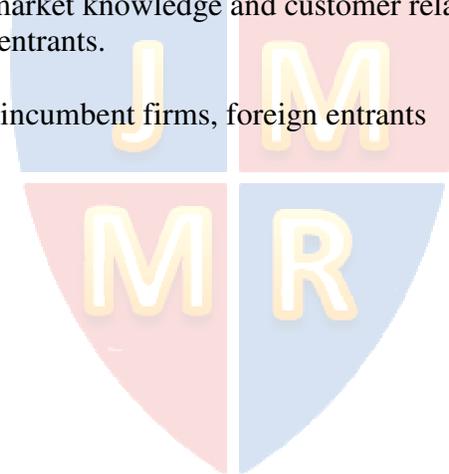
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ABSTRACT

Specialist and generalist firms in an industry in a host market attempt to meet heterogeneous or concentrated demands in the market respectively. Amid growing pressure from foreign entrants, local, incumbent firms (including generalist and specialist firms) posit to take different response strategies. In an attempt to fill the research void, this conceptual paper addresses the research question of how incumbent generalist and specialist firms respond to foreign entrants in terms of marketing mix variables. By integrating resource partitioning theory and resource-based view, we examine the impact of internationalization stages, country-or-origin effect and market resources (market knowledge and customer relationship) on incumbent firms' response strategies to foreign entrants.

Keywords: response strategy, incumbent firms, foreign entrants



INTRODUCTION

Firms' response strategy has been subject to a stream of research (e.g. Gatignon and Hanssens 1987; Robinson, 1988; Shenkar, 1999; Eckert and West, 2006). According to Porter (1979), predicting the reactions to new entrants is strategically important. A firm's marketing success is affected by the congruence between strategic and tactical marketing activities in forms of marketing mix variables (Vignali and Davies, 1994). Kotler and Singh (1981) also point out that firms choose to employ marketing mix variables in different ways in their reactions. Weitz (1985) argues that a pioneer firm's response in their marketing mix greatly influences the competition in the marketplace. A number of other studies have also proposed that the response strategies of incumbent firms might have greater impact on the new entrants than the existing advantages of incumbent firms (e.g. Kalyanaram and Urban, 1992).

In this rapidly globalizing marketplace, strategic consideration is about where a firm seeks to gain competitive advantage through concentrated configuration or coordination or both (Porter, 1986). As Hanssens and Pauwels (2016, p. 178) argue, research in marketing "has tended to focus on tactical decisions rather than on strategy". In addition, "the value of marketing can be expressed in terms of either effectiveness or efficiency" (Hanssens and Pauwels, 2016, p. 177). Thus, a marketing strategy should be developed with the clear identification and objective evaluation of a firm's ability to implement it (Menon et al., 1999). According to Kogut (1984), domestic strategy focuses on resource allocation and control over different links in the value chains and market segment(s); while international firms focus on the same integrated strategy but have different considerations, motivations, timing and location of entry. Amid growing competition from foreign entrants in local markets, incumbent firms' response strategy has tremendous implications for them, as an appropriate response strategy can not only enable them to best utilize their firm-specific resources and core competencies, but also alleviate the competitive pressure from foreign firms in the local market. Therefore, it is imperative for incumbent firms to strategically respond with marketing mix variables in the competitive environment. Incumbent firms' response strategy thus has significant implication for their survival and growth, and eventually their overall performance in the local market.

A body of literature has studied the impact of globalization on marketing activities and competition in industries (e.g. Makhija et al., 1997; Clougherty, 2001; Svensson, 2002; Beck et al., 2015). Gatignon (1984) suggests that firms may respond to competition by increasing or decreasing their corresponding marketing mix variables. However, the marketing and international business literature falls short of studying response strategies of local, incumbent firms facing competition from foreign entrants. Gatignon and Bansal (1990) maintain that incumbents' response to a new entry is affected by the incumbents' characteristics and the competitive dynamics. However, the strategic response initiated by marketing managers doesn't always follow research recommendations (Holtrop et al., 2015). For example, some firms retaliate unnecessarily or with an ineffective marketing mix.

The resource partitioning theory holds that within an industry there are generalist and specialist firms that position differently in the marketplace (Carroll, 1985). In a geographically dispersed market, generalist firms tend to compete for high, concentrated demand in the core while specialist firms usually target heterogeneous pockets of demand in the periphery (Carroll 1985). When foreign entrants enter the marketplace, both generalist and specialist firms face competition and potential challenge from these foreign entrants, consequently resulting in response decisions for these incumbent firms. In addition, according to the resource-based view,

a firm with a valuable resource that is not easily reproducible or transferable can gain competitive advantage (Barney, 1986). Thus, some questions still remain unanswered: How do incumbent generalist and specialist firms respond to foreign entrants in a host market? What firm-specific resources influence the response strategies of the incumbent firms? This current study attempts to analyze and address these research questions.

Despite calls for applying organizational ecology theory in strategy research (Lambkin and Day, 1989), few studies have applied population ecology in the research stream of marketing strategies. As Lambkin and Day (1989) propose, relationships between ecological niche and the market niche may be established, due to the assumption that ecological system might be analogical to the macro-environment of business organizations. This may be because organisms and firms both exist in their specific environment, and consequently, function in the face of constantly changing environments. This current study integrates the resource partitioning theory and resource-based view in an attempt to fill the research gap in the literature. The rest of the paper is organized as follows: First, we present a brief literature review on response strategy, resource partitioning and resource-based view. Second, we propose a conceptual framework on response strategies to foreign entrants and present a number of research propositions. Lastly, we discuss the implications of this study and direction for future research.

LITERATURE REVIEW

Incumbents' Response Strategy

The extant literature of incumbent firms' response strategies has studied firms' response to new product or brand (Robinson, 1988; Shankar, 1999), response speed (e.g. Bowman and Gatignon, 1995), and strategic response capability (e.g. Heinrichs and Lim, 2008). Limited attention has been devoted to a study that examines incumbent firms' response strategies to foreign entrants in host marketplace, a rapidly growing phenomenon in today's globalizing economy.

As Gatignon and Bansal (1990) point out, incumbents' response to new entry is affected by the market demand conditions, the incumbents' characteristics, and the competitive dynamics. Scherer and Ross (1990) hold that incumbent response strategies in marketing spending variables are affected by various factors such as entrant's market experience, entrant's entry scale and its product quality, which are likely to affect incumbent firms' response strategies. Incumbent firms' characteristics, such as their market position, also influence their response strategies (Shankar, 1997). In addition, as Baum and Korn (1996) claim, the market and industry characteristics also have a considerable influence on incumbent firms' response strategies. Similarly, Eckert and West (2006) also argue that local market condition affect incumbent firms' strategic decisions in response to new entrants.

Incumbent firms can respond in three different ways: accommodate (decrease), retaliate (increase), or neutral (no change) in the expenditures on their marketing mix variables (Scherer 1980). Major incumbent firms may choose accommodating or aggressive capacity responses (Eckert and West, 2006). Gatignon (1984) also suggests that firms may respond to a competitor by increasing or decreasing their corresponding marketing mix variable, or may not respond at all. An empirical study by Shanker (1997) shows that new entries first affect the elasticity and margins of the incumbents and subsequently affect the relative marketing mix effectiveness of the incumbents. Thus, Shanker (1997) argues that the competitive structure and the new entry are

determinants of the incumbents' response. Nevertheless, the direction of response (i.e. accommodation, retaliation or no reaction) and the magnitude of response in marketing mix variables are strategically important for firms in the marketplace (Shanker, 1999).

The stream of research on response strategies in marketing mix variables has seen mixed results and recommendations. As Roberts (2005) argues, incumbent firms should assess their capabilities in order to launch defensive marketing against new entrants. Means of communication such as the advertising and sales force are among the capabilities that incumbent firms can use to protect their market position (Roberts, 2005). For example, according to Shankar (1997, p. 272), "the reallocation of resources toward advertising and salesforce upon entry is strategically important to managers". Sales force expenditure can also be a durable source of competitive advantage (Yeoh and Roth, 1999). Gruca et al. (1992) and Kumar and Sudharshan (1988) argue that pioneers should increase their marketing mix expenditures when facing new entries; while Kadiyali (1996) suggests firms accommodate by decreasing marketing mix expenditures. On the other hand, Cubbin and Domberger (1988) and Robinson (1988) find empirical support for neutral strategies in the marketplace. Gatignon et al. (1989) propose that the competitive responses of firms are contingent upon the elasticity of marketing mix variables of the firms. Firms respond to a new entrant by increasing high elasticity marketing mix variable and by decreasing low elasticity variable. The empirical findings provide support for their propositions. Gatignon et al. (1989) empirically incorporate the elasticity of marketing mix variables and suggest that the elasticity of marketing mix variables might explain the mixed findings on incumbents' response strategies in terms of marketing mix expenditure. The empirical findings of Gatignon et al. (1989) conclude that incumbents should accommodate with a low elasticity marketing mix variable and retaliate with high elasticity marketing mix variable.

Resource Partitioning Theory

A population ecology theory, resource partitioning theory holds that within an industry, generalist and specialist firms position differently in the marketplace (Carroll, 1985). Resource partitioning theory suggests that in a geographically dispersed market, with high, concentrated demand in the core and heterogeneous pockets of demand in the periphery, each firm attempts to capture the center market. According to the resource partitioning theory, as the market concentration increases, large generalist firms compete with each other aggressively, thus pushing other firms from the market center to the peripheral space in the market. Therefore, when a few generalists dominate the market center, with a highly concentrated market within the industry, specialists can thrive on the peripheral market space. However, in a dispersed market, the number of generalist firms increases, occupying a large market space with a shrinking periphery. As a result, the life expectancy of specialist firms decreases in the dispersed market (Carroll, 1985, 1994).

Carroll (1985) empirically analyzes the American local newspaper industry and argues that large generalist organizations compete with one another for resources in the marketplace to occupy the center of the market. This competition releases peripheral resources that are consequently exploited by strategically specialized organizations within the industry population. Although generalist firms with wide niches are able to benefit from risk spreading and economies of scale, they are also simultaneously exposed to intense competition. Crowding of firms within the industry can stimulate change, affecting their mortality and risk. The processes involved can therefore give rise to market partitioning. The empirical results indicate that many

small, specialized organizations operate successfully in the newspaper industry despite high levels of concentration in the local area. Thus, Carroll (1985) concludes that increased concentration among the generalist organizations can enhance the life chances of specialized organizations. High concentration in the market can enable the specialists to focus on peripheral resources without directly competing with the generalists. Some demand is always left unsatisfied by firms with spherical, nonoverlapping niches. Specialist and generalist firms appear to operate in distinct resource spaces. Therefore, Carroll (1994) contends that, in order to survive and thrive in the marketplace, specialist firms should steer away from head-on competition with the generalist firms. The long-term success of specialists largely depends on developing and launching distinctive products, as well as identifying and gaining access to the specific segments of the market. On the other hand, large generalists also face the challenge of maintaining growth in the intense oligopolistic competition with other generalists.

In another study, Carroll and Swaminathan (2000) suggest that resource partitioning can explain the two seemingly contradictory trends of an increasing number of small specialty brewers in the U.S. beer brewing industry and an increasing domination of mass-production brewing generalists. In their empirical study on hotel industry in Manhattan, Baum and Haveman (1997) find support for resource partition theory. Mezas and Mezas (2000) also provide supporting evidence of the resource partitioning model by empirically analyzing the American film industry. Their findings indicate that increased concentration among generalists has positive effects on the founding of specialist producers and distributors. These specialists are active and innovative in creating new film genres.

It is also argued that generalists typically differentiate themselves from one another in terms of their appeals in less-concentrated markets. Thus, their combined market base is broader in less-concentrated market than in a concentrated market where the generalists vigorously compete for the market center. As Swaminathan (1998) points out, resource partitioning is generally based on the internal differentiation of a mature industry into subgroups comprised of generalist and specialist firms. In some recent attempts in strategy research, resource partitioning theory is incorporated to propose a product-level theory of market entry (Mainkar et al., 2006), as well as to study post-entry strategic positioning of firms (Xie et al., 2011).

Resource-Based View

The resource-based view holds that a firm with a valuable resource that is not easily reproducible or transferable can gain competitive advantage (Barney, 1986). Heterogeneous, imperfectly mobile, and rare resources can generate a sustained competitive advantage (Barney, 1991). A firm's resources can be both tangible and intangible assets. By defining a firm by resources rather than products, it may more easily see their strengths and weaknesses. Dierickx and Cool (1989) also suggest that non-tradable, non-imitable, and non-substitutable assets are highly firm-specific and therefore constitute strategic assets. These assets can be accumulated internally, resulting in a sustained competitive advantage. Firms organized to exploit the resource or endowed with such resources are able to produce more economically and better satisfy consumer needs (Barney, 1991). Recent research on the resource-based view has provided empirical evidence that value and rareness are related to competitive advantage, leading to superior firm performance (Newbert, 2008) for small and medium enterprises (SMEs), as well as large firms (Terziovski, 2010). The resource-based view argues that it is equally essential for the firms to both protect their unique resources and apply these resources to gain competitive

advantage. A firm can only gain sustainable competitive advantage if the firm can effectively deploy valuable resources in its product-markets. Therefore, the resource-based view emphasizes the strategic choices of the firm's management with essential tasks such as identifying, developing and deploying important resources (Mahoney and Pandian, 1992).

THEORETICAL DISCUSSIONS AND RESEARCH PROPOSITIONS

Cool and Schendel (1988) suggest that there are significant and systematic differences among the firms in the same industry. Resource partitioning theory has emerged as an industry-level analysis of organizational ecology (Carroll, 1985), while the resource-based view has been suggested to explore firm-specific capabilities in the competitive environment (Barney, 1986; Wernerfelt, 1984; Hunt and Morgan, 1995). In addition, van Kranenburg et al. (2002) also find evidence that aggregate, industry- and firm-specific factors affect the exit hazard rates in the market. Resource heterogeneity exists at a continuous process as firms respond to changing environment and consumer demands in the marketplace. Dunning (1981) points out that firm-specific advantage is also influenced by industrial structure, economic conditions and institutional environment. Thus, the asymmetries in resource endowments exist not only at the level of individual firms, but also across industry and national boundaries as well (Dunning, 1981).

It is well documented in the strategy literature that a firm's strategy should be contingent upon the environment and circumstances in which the firm operates (e.g. Chandler, 1962; Prahalad and Doz, 1987). Wernerfelt (1984) argues that firms should develop their strategies to adapt to the external environment and their firm-specific resources. Resource partitioning emphasizes endogenous changes within the existing competition in the industry (Will, 1998). Will (1998) contends that researchers need to focus on how the intersections among individual, organizational, and environmental incentives produce the business organizations and their business strategy. Idiosyncratic firm-specific capabilities can certainly interact with industry-level factors to influence business activity and industry evolution. Thus, we draw on the extant bodies of literature on resource partitioning and resource-based view to integrate industry- and firm-level analyses of the dynamics of firm response strategy to foreign entrants. A number of propositions are developed based on the theoretical discussions.

In this study of the competitive responses of incumbent firms, we examine in particular the impact of marketing concentration, internationalization stages, country-of-origin effect and market resources (i.e. market knowledge and customer relationship) on incumbent firms' competitive response to foreign entrants in the host market.

Generalist and Specialist Firms

New entries affect the elasticity and margins of the incumbents and, subsequently, affect the relative marketing mix effectiveness of the incumbents (Shanker, 1997). Thus, Shanker (1997) argues that the competitive structure and new entry are determinants of the incumbents' response. It is therefore suggested that the dynamics of resource partitioning exerts a significant impact on the response strategy of the incumbents, which are comprised of both generalist and specialist firms in the industry.

A study examining the impact of multipoint contact between firms in multiple geographic markets by Haveman and Nonnemaker (2000) reveals that in an unconcentrated industry, when

two firms meet in several geographic markets, each firm has an incentive and tendency to concentrate its attention and influence on certain markets, while refraining from aggressive competition in other markets of influence of its multipoint competitors, as long as its own market of influence is similarly respected. Haveman and Nonnemaker (2000) also argue that market concentration (i.e. the extent to which a market is dominated by one or a few large players) has a negative impact on the growth and entry by both multi- and single-market firms. It is also suggested that in highly concentrated markets, specialists may develop a distinctive identity or reputation, which generalists may not be interested or able to imitate (Hannan et al., 2003). Echoing Hannan et al. (2003), a recent work by Markman and Waldron (2014) also suggests that specialist firms can penetrate markets dominated by large incumbent firms without intensifying rivalry, particularly by targeting small niches that are considered inconsequential by large incumbent firms.

Similarly, Baum and Korn (1996) shows that an increase in market domain overlap raises rates of market entry and exit in a market. However, an increase in multimarket contact actually lowers the rates of market entry and exit, especially in highly concentrated markets. For example, airliners that meet in multiple markets are less aggressive toward each other than those that meet in one or a few markets (Baum and Korn, 1996). According to Baum and Korn (1996), market domain overlap refers to the similarity in resource requirement in an industry. It is a major determinant of competitive intensity among firms. Foreign entrants are usually multinational enterprises (MNEs) from foreign countries. Generalist firms in the local market are also likely large companies with operations in foreign countries. Thus, it is likely that market domain overlap exists between incumbent generalist firms and foreign entrants. We expect that incumbent generalist firms are less likely to take direct competitive approaches to respond to foreign entrants, while specialist firms are likely to take direct competitive approaches. Therefore, we propose as follows:

Proposition 1: Generalist firms are more likely than specialist firms to respond to foreign entrants with a neutral response strategy.

Marketing Concentration

Market concentration is defined as the market share of sale revenues by major competitors in an industry (Scherer, 1980). Market concentration demonstrates the intensity to which a number of large firms dominate an industry (Zhao & Zou, 2002). A high concentrated market is dominated by a few major competitors in the market. However, a large number of firms compete in a low concentrated market, none of which has a dominating power. Therefore, market concentration can ultimately determine firms' competitive behaviors in the market (Dobrev et al., 2002; Varadarajan et al., 2001). Correspondingly, the market concentration in a host market inevitably affect the positions taken by either foreign entrants or incumbent firms in the host market. Thus, it appears reasonable for firms to adopt a generalist or specialist strategy in order to adjust to the market structure. In a high concentrated market, the intense competition among generalist firms leads to higher competitive intensity in the market. According to the resource partitioning theory, in a high concentrated market, while large generalist firms vigorously compete for the market center, peripheral resources in the market space are released as available for other firms (Carroll, 1985; Swaminathan, 2001). As a result, while generalist firms compete directly with each other for the market center, the released peripheral resources in

the market space may facilitate the founding and growth of specialist firms (Swaminathan, 1995).

As foreign entrants are usually multinational corporations (MNCs) taking generalist positions in international markets, incumbent generalist firms are likely to engage in direct competition with these foreign entrants for the market center. However, in a low concentrated host market, a large number of firms, instead of a few dominating firms, actively compete with one another for market share, leading to intensified competition in the host market. Therefore, we propose:

Proposition 2: The higher market concentration is in a host market, the more likely incumbent generalist firms are to adopt a response strategy of retaliation.

Proposition 3: The lower market concentration is a host market, the more likely incumbent specialist firms are to adopt a response strategy of retaliation.

Internationalization Stages

A firm seeking to enter a foreign market usually follows an incremental process (e.g. Johanson and Vahlne, 1977; Cavusgil and Nevin, 1981; Anderson, 1993). The four most common modes of foreign market entry are: exporting, licensing, joint venture, and wholly owned subsidiary (Agarwal and Ramaswami, 1992). The Uppsala Internationalization Model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne 2009) distinguishes four different modes of entering an international market, with different degrees of international involvement: (1) no regular export activities; (2) export through independent agents; (3) an overseas sales subsidiary; (4) overseas production/manufacturing units. The internationalization models assert that as the psychic distance between markets increases, it becomes more and more difficult for firms to collect and interpret information. Firms increase their commitment of resources incrementally as they accumulate knowledge about a particular market. Firms internationalize in a gradual and incremental process, as their experiential knowledge increases in international markets (Johanson and Vahlne, 1977). Eriksson et al. (1997) contend that the lack of international knowledge may increase the perceived cost of internationalization. Therefore, firms must acquire knowledge on market factors such as legal systems and cultures in the international markets (Eriksson et al., 1997). With accumulated experiences in the markets, firms are able to gain greater confidence in estimating costs and returns in the markets (Davidson, 1980). To further understand the change mechanism, Johanson and Vahlne (2009) suggest that experiential knowledge in internationalization can be accumulated and shared in relationships and networks. Thus, in addition to experiential knowledge, firms can also acquire knowledge through active learning from competitors, acquisition of other firms, and sharing of network partners (Forsgren et al., 2015).

As foreign entrants enter a local market and gradually expand, their presence and competitiveness will start to pose practical threats for incumbent firms. Foreign entrants with a higher degree of market entry mode are likely to possess higher level of international experience, more resources and more commitment in the host market, thus posing higher competitive pressure on incumbent firms in the host market. MacMillan et al. (1985) assert that high-perceived potential and strategic threat is likely to result in a rapid response from the incumbent firms. The growing presence and competitive strength of foreign entrants in local marketplace eventually will lead to corresponding competitive response from incumbent firms. Thus, we propose the following:

Proposition 4: The higher the degree of foreign entrants' internationalization is in a host market, the more likely incumbent firms (generalist and specialist firms) are to adopt a response strategy of retaliation.

Proposition 5: The lower the degree of foreign entrants' internationalization is in a host market, the more likely incumbent firms (generalist and specialist firms) are to adopt response strategies of neutrality or accommodation.

Similar to the theoretical discussion of generalist and specialist firms, we also argue that the internationalization stages of incumbent firms in a host market also have significant impact on incumbent firms' response strategy. In an unconcentrated industry, when two firms meet in multiple geographic markets, each firm has an incentive and tendency to concentrate its attention and influence on certain markets, while refraining from aggressive competition in other markets of influence of its multipoint competitors, as long as its own market of influence is similarly respected (Haveman and Nonnemaker, 2000). A study by Baum and Korn (1996) also shows that an increase in market domain overlap raises rates of market entry and exit in a market. However, an increase in multimarket contact actually lowers the rates of market entry and exit, especially in highly concentrated markets. This study of competition among airlines suggests that when airlines meet in multiple markets, they are less aggressive toward one another than those that meet in one or very few markets (Baum and Korn, 1996). Thus, market domain overlap, as defined as the similarity in resource requirement in an industry, is a major determinant of competitive intensity among firms (Baum and Korn, 1996).

Foreign entrants are usually multinational corporations (MNCs) from foreign countries. Similarly, incumbent firms that are internationalized in the global market also have operations in foreign countries, competing with foreign firms in multiple markets. Thus, it is likely that market domain overlap exists between internationalized incumbent firms and foreign entrants. We expect that internationalized incumbent firms are less likely to take direct competitive approaches to respond to foreign entrants than those incumbent firms that focus on domestic market. Therefore, we propose as follows:

Proposition 6: The higher the degree of internationalization of incumbent firms (generalist and specialist firms) is in international markets, the more likely they are to adopt response strategies of neutrality or accommodation in the host market.

Proposition 7: The lower the degree of internationalization of incumbent firms (generalist and specialist firms) is in international markets, the more likely are they to adopt a response strategy of retaliation in the host market.

Country-of-Origin Effect

Foreign products and services are related to the country-of-origin effects in international marketplace. Country images are built over a period of time and can provide unique and country-specific intangible assets that contribute positively to the market share of the products by influencing the effectiveness of marketing variables in the marketplace. A study by Kim and Chung (1997) suggest that country image interacts with marketing variables differently for brands from different countries in the U.S. market. Effects of country image arise from a customer's perception about the labor, technology, or manufacturing process within a particular country (Kim and Chung, 1997). Brands originating from a specific country are likely to create intangible assets or liabilities that are shared by other brands originating from the same country. The strength of country association has a positive impact on consumer-based brand equity

(French and Smith, 2013). Therefore, consumers' perceptions may not be completely brand-specific but rather country-specific (Erickson et al., 1992). However, Balabanis and Diamantopoulos (2008) caution the merits of the country-of-origin effects, as consumers are not always able to identify the country origin of the products and brands. In a study of uni-national and bi-national products, Han and Terpstra (1988) conclude that even U.S.-made products carrying a foreign brand are still associated with consumers' perception of the country image for that particular foreign country. Nevertheless, the country-of-origin effect must be considered from the consumers' perspective (Andehn and Decosta, 2016), as the physical location of manufacturing does not necessarily fit with consumers' perceived association between a brand and a country (Josiassen and Harzing, 2008).

According to Roth and Romeo (1992), the product-country matches are related to consumers' willingness to buy products from certain countries. Product-specific references are more significant when products are from industrialized countries than from developing countries (Cordell, 1992). According to the resource-based view, a firm gains competitive advantage by possessing an asset or resource that is not easily reproducible or transferable (Barney, 1986). A favorable country-of-origin image is a competitive advantage and thus a firm-specific resource. Therefore, foreign entrants from countries with favorable country-of-origin effect are likely to develop a positioning strategy accordingly in a host market. In response, incumbent firms are expected to adopt different competitive responses to those foreign entrants in the host market. We propose the following:

Proposition 8: The more favorable the country-of-origin effect of the foreign entrants is, the more likely the incumbent firms (generalist and specialist firms) are to adopt a response strategy of retaliation.

Proposition 9: The less favorable the country-of-origin effect of the foreign entrants is, the more likely the incumbent firms (generalist and specialist firms) are to adopt response strategies of neutrality or accommodation.

Market Knowledge

Amit and Schoemaker (1993, p.35) regard capabilities as the firm's 'capacity to deploy resources' in its organizational process of operation. Market knowledge is considered information-based, firm-specific and interactive among the firm's resources. Heterogeneous, imperfectly mobile and rare resources can create a sustained competitive advantage (Barney 1991). Firms apply bundles of resources to achieve particular tasks and these resources determine firms' capabilities as well (Rumelt, 1984).

Scherer and Ross (1990) also argue that entrant's market experience, the scale of its entry and its introductory marketing spending are likely to influence the responses of the incumbents. As Gatignon et al. (1989) admit, studying the extent of rivalry in competition is limited due to the difficulty of obtaining comprehensive data on competitor behavior. In addition, a variety of factors, such as the organizational member's perceptions and agenda, can also result in differences in responses of the firms. Gatignon et al. (1989) argue that differences in firm abilities should be the focus of analyses of firms' response strategies. We argue in this study that local market knowledge and customer relationship are two important aspects of market knowledge.

Foreign Entrants' Local Market Knowledge

Internal knowledge of firms is considered an important source of firms' resources in a number of studies of resource-based view (Barney, 1991; Teece et al., 1997). Solberg (2000) suggests that knowledge of local markets and headquarters' influence on local market decision are important in firms' international strategies. Local market knowledge is positively related to standardized solution of firms' strategy, while decentralized power in corporate structure leads to adaptation (Solberg, 2000). According to Fletcher and Harris (2012), market knowledge has two main dimensions: knowledge about the local institutions and local business network. It is generally agreed that market knowledge has a positive impact on firms' international operations (Oviatt and McDougall, 2005; Mueller, 2007). In a recent study, Akerman (2015) suggests that local market knowledge is significantly associated with international opportunity realization.

The tacit, diffused or socially embedded resources are considered unobservable resources, thus raising the barriers to imitation (Reed and DeFillippi, 1990). The barrier to imitation plays important role in the inimitability of a firm resource. Local incumbent firms usually possess location-specific resources that these incumbent firms can take advantage of local market conditions (Tallman, 1992). To compete with incumbent firms, a significant effort of required of foreign entrants to acquire these resources. Foreign entrant with considerable local market knowledge is likely to pose more competitive threat for incumbent firms in a host market. Therefore, we propose the following:

Proposition 10: Foreign entrants' local market knowledge in a host market is positively related to incumbent firms' response of retaliation.

Proposition 11: Foreign entrants' local market knowledge in a host market is negatively related to incumbent firms' response strategy of accommodation and neutrality.

Foreign Entrants' Customer Relationship

As Day (1994) suggests, customer service is an important capability that affects a firm's marketing advantage. Marketing capabilities vary from business to business because of the competitive nature of markets (Day, 1994). Market driven organizations demonstrate high market-sensing and customer-linking abilities. Customer relationship is univocally suggested as an important source of marketing capabilities. Schroeder et al. (2002) maintain that firms can also learn externally through problem solving with customers and suppliers. On the other hand, due to different customer preferences for customer relationship, Mende et al. (2013) suggest that firms can tailor relationship marketing activities to improve customer relationship.

Customer relationship is a tacit, inimitable knowledge that can create continuous quality improvement (Gerwin, 1993). A recent study by Mullins et al. (2014) suggests that perception of customer relationship quality can significantly affect salespeople's performance. Close customer relationship can presumably lead to positive financial outcomes (Reibstein et al., 2009). Foreign entrants with stronger customer relationship are likely to capitalize this asset/resource in their competition with incumbent firms in the host market. We therefore propose as follows:

Proposition 12: Foreign entrants' customer relationship in a host market is positively related to incumbent firms' response strategy of retaliation.

Proposition 13: Foreign entrants' customer relationship in a host market is negatively related to incumbent firms' response strategy of accommodation or neutrality.

IMPLICATIONS AND FUTURE RESEARCH

This current study contributes to the extant literature by examining response strategies of incumbent firms to foreign entrants. Resource partitioning theory and resource-based view are adopted to provide a theoretical and conceptual framework to examine incumbent firms' dynamic response strategies to foreign entrants in a host market. The competition and dynamics of domestic marketplace gives the rise to the resource partitioning process, causing firms to adopt generalist or specialist strategies in the marketplace, based on their relevant resource endowment. Amid the dynamics of market concentration and density of the industry in a host market, incumbent generalist and specialist firms are positioned to take different response strategies to foreign entrants. The degrees of internationalization of both foreign entrants and incumbent firms affect incumbent firms' competitive responses to foreign entrants in a host market. Country-of-origin effect also plays an important role in incumbent firms' competitive response to foreign entrants from different countries, with different country-of-origin effect in the host market. Market knowledge (i.e. local market knowledge and customer relationship) also exerts considerable impact on incumbent firms' competitive response.

The implications of this study are two folds. Amid the globalizing economy and mounting competitive pressure from foreign competition, it is essential for incumbent firms to understand the various factors that exert impact on their competitive responses. This study provides considerable insight into these factors. In addition, both incumbent firms and foreign entrants in a host market need to be prudent in evaluating the market dynamics in the host market and adopt the strategy that best fit their capability and resources in the host market.

This current conceptual study provides a preliminary attempt in this stream of research of response strategy. Future research can further explore the impact of institution on competitive response. This study takes a comprehensive approach in marketing mix variables. Future research can take a more in-depth approach to study possible different responses in marketing mix variables respectively. The interaction between foreign entrants' entry strategy and incumbent firms' competitive response is also another direction for future research. It is thus suggested that further empirical studies can employ both secondary data and primary data (through surveys) to complementarily examine the dynamic nature of response strategy of incumbents to foreign entrants. Another direction for future research would be the performance implications of incumbent firms' response strategies.

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