FIRST MOVER ADVANTAGES IN INTERNATIONAL BUSINESS AND FIRM-SPECIFIC POLITICAL RESOURCES

JEDRZEJ GEORGE FRYNAS,1* KAMEL MELLAHI2 and GEOFFREY ALLEN PIGMAN3
1 Middlesex University Business School, London, U.K.
2 Nottingham University Business School, Nottingham, U.K.
3 Bennington College, Bennington, Vermont, U.S.A.

While the currently prevailing conceptual framework of first mover advantages (FMAs) specifies various market mechanisms through which first movers can gain pioneering benefits, it is incomplete by failing to consider the role of political resources in creating FMAs. In this context, this article aims to add the political mechanism to the current classification of FMA mechanisms. The article further serves as a window to an understanding of the long-term process of acquiring, sustaining, and exploiting firm-specific political resources in international business, which has been neglected in prior studies on business–government relations. Detailed analysis of three case studies suggests that the causal relationship between political resources and FMAs is a complex one; while non-market strategies can be used successfully by first movers, they can also be used by late movers to neutralize FMAs. The article proposes a model for understanding the link between FMAs and political resources.

Keywords: political resources; government; first mover advantages; resource-based view; transition economies; international business

*Correspondence to: Jędrzej George Frynas, Middlesex University Business School, The Burroughs, London NW4 4BT, U.K.
E-mail: g.frynas@mdx.ac.uk

Royal Dutch/Shell and BP were the first companies to produce crude oil in Nigeria in the late 1950s and the former still dominates the country’s oil production today. Volkswagen was amongst the first foreign investors in the Chinese car industry in the early 1980s and has remained the leader in the country’s car market. Lockheed Martin was the first foreign aerospace company to collaborate with Russian firms in the field of aerospace technology and this early technological advantage allowed the resulting joint venture (International Launch Services or ILS) to gain leadership in the global market for commercial space launch services. In all of these cases, firm-specific political resources played the key part in creating first mover advantages (FMAs) for the respective firms. Shell and BP benefited from the support of the British colonial authorities, Volkswagen enjoyed the support of high-ranking Chinese officials and Lockheed Martin benefited from top-level U.S.–Russian political cooperation in the field of aerospace.

Experienced international managers know that political support can be critical in establishing an early market entry, especially in transition economies where free market competition did not exist until fairly recently. However, as discussed below, the currently prevailing conceptual framework of FMAs does not take account of political resources in creating FMAs (e.g., Lieberman and Montgomery, 1988; Kerin, Varadarajan, and Peterson, 1992; Vanderwerf and Mahon, 1997). It encompasses market factors, which can create FMAs, but it curiously fails to encompass non-market factors. In this context, this article aims to add the political mechanism to the current classification of FMA mechanisms.

The neglect of the political dimension in FMA studies is surprising given a large
literature on business–government relations, with important contributions published in the Strategic Management Journal (SMJ) from the journal’s inception until today (Mahon and Murray, 1981; Baysinger and Woodman, 1982; Shaffer and Hillman, 2000; Delios and Henisz, 2003). Coinciding with the rise of the resource-based view (RBV) in strategic management, many contributions have explored how political resources can help firms to obtain firm-specific advantages in the market (for a review of firm-level responses to government regulation see, for example, Shaffer, 1995). However, we find that there remain underexplored areas in the literature. Above all, despite the universal nature of the RBV, which is not limited to the strategic behavior of firms within their domestic setting, most of the strategic management research on firm-specific political resources has so far been conducted on the domestic political process. As exemplars of this literature, prior studies in SMJ have shown that political resources contribute toward the creation of shareholder value or what management processes firms use to develop political strategies domestically in the United States (Hillman, Zardkoohi, and Bierman, 1999; Shaffer and Hillman, 2000) but have not discussed the international dimension. In the words of Henisz (2003: 174), ‘The international literature examining the management of institutional idiosyncrasies remains relatively underdeveloped as compared with the corresponding literatures on technology or marketing strategies.’ This prevents us from understanding how firms may be able to use the political process when the support of the home government becomes only of limited value. The international expansion of firms raises specific issues in the analysis of the political process; for instance, to what extent political resources are transferable across international borders and how firms balance the sometimes contradictory demands from the home and the host government. Therefore, in addition to our primary aim of adding the political mechanism to the current classification of FMA mechanisms, this article sheds light on how firms may acquire, sustain, and exploit political resources when faced with the liability of foreignness. Furthermore, our study serves as a window to an understanding of the process of acquiring, sustaining, and exploiting firm-specific political resources in the very long term, which is visibly absent from much of existing literature on political resources.

The article starts with a discussion of the FMA concept and reveals that the currently prevailing conceptual framework of FMAs is incompletely specified. It then introduces several strands in the existing business literature to inform our investigation on how firm-specific political resources may constitute crucial building blocks for competitive advantage. Building upon these insights, we examine three case studies of different time-spans and from different industries and countries to analyze the process by which political resources can translate into FMAs. Based on this analysis, theoretical propositions are developed, which provide the basis for our model on how political resources influence the evolution of FMAs.

POLITICAL RESOURCES AND FIRST MOVER ADVANTAGES

The FMA concept and the role of government

On the most basic level, the idea of an FMA suggests that pioneering businesses are able to obtain positive economic profits as the consequence of early market entry, that means, profits in excess of the cost of capital. According to Lieberman and Montgomery (1988), the key element of an FMA is an initial asymmetry among competitors, enabling one firm to gain a head start over its rivals. In line with previous studies (e.g., Urban and Star, 1991; Tellis and Golder, 1996), this article uses market share and the rate of company survival as indicators of FMAs. Numerous studies suggest that order of market entry and market share are causally related. Research suggests that first movers have higher market shares than early followers, who in turn have higher market shares than later entrants (Urban and Star, 1991; Kerin et al., 1992), although the beneficial impact of early market entry has not been unchallenged. Both empirical work (Tellis and Golder, 1996) and theoretical work (Shankar, Carpenter, and Krishnamurthi, 1998) suggested that there are considerable first mover disadvantages and early market entry does not automatically endow pioneers with higher profitability.

Nonetheless, previous conceptual contributions on FMAs have common elements. Both marketing and strategy literatures have specified the mechanisms through which first movers can gain
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pioneering benefits, which provide a common FMA conceptual framework. The important studies by Kerin et al. (1992) in the Journal of Marketing and by Lieberman and Montgomery (1998) in SMJ offer a strikingly similar classification of such mechanisms.

According to Kerin et al.’s (1992) typology of four types of mechanisms, economic mechanisms relate to cost advantages (scale and experience economies and marketing cost asymmetries); preemption mechanisms relate to cost asymmetries in factor inputs (e.g., procurement contracts which ensure raw materials at lower prices than later entrants) and spatial preemption (e.g., preempting competitors by securing a specific geographic space or marketing channel); technological mechanisms relate to product, process, and organizational innovations; and behavioral mechanisms relate to differentiation advantages (e.g., through switching costs or product-specific reputational advantages). The SMJ study by Lieberman and Montgomery (1998) has a strikingly similar typology which also specifies four types of mechanisms and largely corresponds to Kerin et al.’s classification: preemption of geographic space (corresponding to spatial preemption); preemption of technology space (technological); preemption of customer perceptual space (behavioral); and molding the cost structure of customers (economic). Based on an investigation of market mechanisms, empirical studies have investigated various factors that may influence FMAs, including firm size (Lowe and Atkins, 1994), industry factors (Robinson and Min, 2002), differences in national markets (Alpert et al., 1996), and country of origin (Chen and Pereira, 1999).

But, surprisingly, the FMA conceptual framework and the empirical literature fail to investigate political resources in creating FMAs. Even if political and legal factors are discussed, FMA studies consider these factors as exogenous variables and the role of governments is seen as a barrier to FMAs for foreign investors. Prototypical for this view, Nakata and Sivakumar’s (1997) study of FMAs in emerging markets considered the impact of political and legal conditions on FMAs. The authors concluded that the impact of political factors such as political instability reduced FMAs for foreign investors. They ascribed positive influences on FMAs to economic liberalization and privatization, which ultimately reduce the impact of governments on markets. Yet they entirely failed to consider the possibility that the intervention of governments may actually constitute another FMA mechanism.

At this stage, it should be pointed out that numerous business history and political science studies have provided empirical evidence that political resources can assist early market entry. The business historian Geoffrey Jones (1981: 128–141) demonstrated how the support of British government officials at different levels helped D’Arcy and Burmah Oil to gain an early foothold in Persia (today Iran) at the beginning of the 20th century. The political scientist William Reno (1998: Ch. 2) illustrated in some detail how small South African firms reaped profits when entering highly risky African markets such as Sierra Leone and Angola thanks to specific skills and clandestine political networks at the end of the 20th century. However, these studies have never aspired to yield any general lessons for business research and, conversely, they have been altogether ignored by studies on FMAs and much of mainstream business research.

The neglect of the political dimension in the previous FMA research prevents us from better understanding how certain firms obtained FMAs when expanding internationally. In a rare exception, the positive impact of governments on pioneers was mentioned in passing by two writers in a study on FMAs in transition economies. Based on empirical research in China, Luo and Peng (1998: 159) pointed to the impact of government policy on foreign investment and remarked that ‘in China, a large number of early movers have been rewarded handsomely due to their collaboration with the government.’ They cited Volkswagen as an example of a company that benefited from political conditions in establishing an FMA in China and suggested in general terms that foreign investors ‘have to pay careful attention to government policy in transitional economies which tend to encourage early entrants’ (Luo and Peng, 1998: 159). Unfortunately, these writers did not expand on the importance of political resources elsewhere in their study and failed to integrate political resources in research design. The available tools of analysis simply prevented them from investigating political resources. As a consequence of the limitations of the current conceptual framework of FMAs, the question of the government impact on FMAs remains largely unexplored.
Political resources in the business literature

The incomplete specification of the currently prevailing conceptual framework of FMAs is striking since other strands of the business literature have long recognized the importance of political resources. It is recognized in the literature on the business-government interface that ‘the effects of government on competitive position are an important determinant of firm performance’ at the level of the firm and that ‘regulation often has asymmetric effects on competing firms’ (Shaffer, 1995). At the core of the link between firm performance and regulation is the recognition that the capabilities of firms to cope with new legislation are highly unevenly distributed (Oster, 1982; Leone, 1981, 1986). In some cases, a firm may even support legislation, which is damaging to it, if that legislation has an asymmetric impact on individual players in an industry by disproportionately raising the rivals’ costs and thereby improving the firm’s overall competitive position (Oster, 1982; McWilliams, Van Fleet, and Cory, 2002).

The impact of government intervention on individual firm performance has directed academic attention to the importance of ‘political capital,’ ‘political resources,’ or ‘political competences,’ which have been variously defined in the literature. Boddewyn and Brewer (1994: 135–136) considered political resources in terms of ‘intelligence and cognitive maps about nonmarket environments, better access to decision makers and opinion makers, and better bargaining or non-bargaining skills,’ but they can extend further to encompass financial resources (e.g., in terms of the ability to pay bribes), reputation, coalition-building ability and political entrepreneurship. In this article, we broadly define political resources as any firm attributes, assets, human resources, or any other resources that allow the firm to use the political process to improve its efficiency and profitability. In this context, we contend that political resources can vary considerably. But we suggest that they can broadly fall into Barney’s (1991) threefold typology of physical capital resources (e.g., a firm’s formal corporate nationality as a way of obtaining the home government’s protection), human capital resources (e.g., the experience of managers in operating in transition economies or paying bribes), and organizational capital resources (e.g., informal relations between the firm’s managers and political decision-makers).

There is much empirical evidence to support the view that ‘political resources’ are among the key factors in explaining firm performance, especially in transition economies such as China where the impact of the government on business is still very strong, various large enterprises are state-owned, good government links can be important for a firm to be successful, and there is a high degree of uncertainty with regard to government regulation (Peng, 2000). Research on China consistently found that good relationships with government and other institutional bodies are key success factors (Sit and Lui, 2000; Yoshimatsu, 2000; Peng, 2000). Airriess’s (2001) study of Hong Kong-based Hutchison Port Holdings success in China found that in addition to traditional economic factors Hutchison Port Holdings’ market share dominance is explained partly by institutionally embedded practices in China’s socio-cultural and political environment. Yeung’s (2000) study of Singaporean firms investing in China found that success was ‘embedded in dense networks of social and political relationships.’ In a survey of managers in the Chinese electronics industry by Tan and Litschert (1994), the state regulatory regime was regarded as having the key influence on firm performance out of eight different factors in the business environment.

While firm-specific political resources are probably of greatest importance in transition economies, they are still important in developed countries, which continue to impose countless regulations and subsidize some sectors of the economy. Extensive research on the domestic political process in the United States discussed in detail the importance

Studies by Nakata and Sivakumar (1997) and Luo and Peng (1998) provide indications that the existing classification of FMA mechanisms is incompletely specified and requires the addition of a fifth—a political—mechanism. The political mechanism that we propose is complementary to the other four mechanisms of the existing conceptual framework (e.g., an early entrant may preempt rivals in a geographic space as well as build up superior government relations) but it does not fit into any existing category. Indeed, our article shows that the mechanisms by which political resources translate into FMAs are distinctly different from technological or economic ones; hence our contribution consists of a more complete specification of the FMA conceptual framework.
of firm-specific strategic uses of political resources (see, for example, Mitnick, 1993; Shaffer and Hillman, 2000; Hillman et al., 1999). For instance, Hillman et al.’s (1999) study in SMJ found a strong positive relationship between personal service of corporate managers in the U.S. government and the performance of their former corporate employers; the article concluded that ‘selective benefits accrue to the individual firms linked to the government.’ In general terms, Harris (1989: 262) even argued that the growth of regulation in the United States from the 1960s has led to a ‘politicization of management’ whereby business managers became more aware of government and became increasingly motivated to influence government policy.

Since special emphasis was placed on differences between firms in terms of political resources, various recent studies have linked political resources to the resource-based view (RBV) of the firm (Boddewyn and Brewer, 1994; Majoor and Van Witteloostuijn, 1996; Oliver, 1997; McWilliams et al., 2002). Access to a key government minister, experience in dealing with corrupt officials and other political resources, which result in a firm’s advantageous treatment by political decision-makers, are frequently in scarce supply and difficult to obtain. Therefore, political resources can be aligned with Barney’s (1997) VRIO framework, as key resources are valuable, rare, difficult to imitate, and a firm must be organized to exploit their full competitive potential. Political resources are difficult for rivals to match, so they may be a source of competitive advantage. Indeed, Boddewyn and Brewer (1994: 136) argued that political resources fit the requirements of the RBV rather well in that ‘the most effective political behaviors are often covert in nature, whether legal or not,’ hence ‘barriers to imitation may be higher in the case of political competences because of their lower visibility.’ Yet this influential strand of the business literature has made no imprint on FMA studies, despite the explicit recognition that the FMA concept should be aligned with the RBV view (Lieberman and Montgomery, 1998).

This article suggests that political resources should be given a prominent place in the FMA conceptual framework, not least since a key concept of FMA studies is the ‘barrier to entry’ derived from industrial organization economics. Much of the conceptual work on FMAs offers explanations of how FMAs can be obtained as a result of entry barriers including scale effects, experience effects, or reputational effects (see Kerin et al., 1992). But FMA studies fail to discuss the crucial role that governments can play in establishing entry barriers. As early as the 1970s, business scholarship suggested that government regulation can act as an important entry barrier either directly—by prescribing certain forms of business activities—or indirectly—inter alia, by raising the minimum efficient scale in an industry (Leone, 1977; Oster, 1982; Salop, Scheffman, and Schwartz, 1984). By extension, one would expect that, by erecting entry barriers, government actions could help to create FMAs for some firms and industries. However, while the concept of entry barriers plays a key role in the currently prevailing FMA conceptualization, the question of government action and political resources in creating entry barriers for late movers has been neglected.

**Political resources and timing of market entry**

While the literature on business—government relations emphasizes the importance of political resources, it does not investigate the relationship between political resources and the timing of market entry, which is so crucial to the FMA concept.

A diverse range of theories points to the importance of the timing of market entry. We suggest that resource dependence theory and reciprocity theory offer useful avenues for examining the relationship between political resources and early market entry.

Resource dependence theory—associated with the work of Pfeffer and Salancik (1978)—indicates that organizations are generally dependent on their surroundings in order to guarantee the flow of critical resources for their survival. Hence, organizations must attend to the demands of those in their environment that provide resources necessary and important for their continued survival. Although the resource dependence theory was originally formulated to understand relationships between organizations and among units within organizations, the theory is found to be readily applicable to relationships between firms and government institutions (Getz, 1997; Oliver, 1991; Mullery, Brenner, and Perrin, 1995).

Resource dependence theory points to changes in dependence over time, assuming that dependence on external actors is not constant, as the external environment is bound to evolve. In the
words of Pfeffer and Salancik (1978: 3), ‘problems arise not merely because organizations are dependent on their environment, but because this environment is not dependable.’ Conversely, dependence on the government is not constant and firms ‘may not need to be continuously politically active’ (Getz 1997: 58). As the dependence on government institutions changes, the importance of a firm’s political resources is also likely to change over time. The key question for us is whether or not this dependence is most pronounced during the early stages of a government intervention in a market.

Getz and other theorists have not investigated the relationship between the shifting government dependence and FMAs, but we posit that the dependence on government institutions is likely to be greatest in the early stages of industry formation. If we accept the idea of path dependence, political resources are likely to be most valuable to firms during early industry formation when political action can translate into entry barriers for late movers. Government intervention during early industry formation could, for instance, prevent future rivals from entering the market through formal regulatory barriers to entry, or it could endow first movers with spatial preemption (e.g., preempting competitors by securing a specific geographic space or marketing channel) and behavioral advantages related to differentiation (e.g., through switching costs or product-specific reputational advantages of early entry) (cf. Kerin et al., 1992). In this way, a combination of insights from industrial economics and resource dependence theory provides us with an explanation of why dependence on political resources may be greatest as well as most profitable for early market entrants.

While resource dependence theory focuses on calculative and self-interested gains that both firms and government institutions anticipate from mutual cooperation, it does not explain situations when business-government cooperation may not be driven by organizational gain alone. Resource dependence theory needs to be supplemented by a theoretical lens, which allows for a behavioral explanation to account for continuing cooperation when organizational behavior may not be driven by processes of interest mobilization. Reciprocity theory offers such an approach.

Reciprocity theory explicitly predicts relationships to be based on each partner’s motivational investment and anticipated social gain (Fischer and Bristor, 1994: 329). Reciprocity is often considered as one of the most robust effects found in the psychological literature (Moon, 2000). The norm of reciprocity evokes obligation towards others on the basis of their past behavior (Gouldner, 1960). The key principle of reciprocity states that people and institutions should return good for good, in proportion to what they receive (Bagozzi, 1995). Reciprocity is more than an instant tit-for-tat interaction between two parties. Rather, it is a stable process of long-term cooperative interactions by the involved parties (Larson, 1992). That is, cooperative relationships based on truthful and honest attitude from all parties do not only oblige the parties to behave reciprocally, but they also tend to lead to a spiral of self-fulfilling mechanisms that nurture further cooperation and strengthen the relationship over time as the partners commit to more agreements, share information, build trust, and look for ways to improve the relationship (Ring and Van de Ven, 1994; Dyer, 1997, Tallman and Shenkar, 1994).

To our knowledge, reciprocity theory has not been used in research on business-government relations but we posit that it is readily applicable here. One could argue that, if a firm enters a country early on, when other firms are still weighing the advantages and disadvantages of so doing, the host government may reciprocate by providing greater support to first movers than late movers. Reciprocation creates a general positive atmosphere, removes barriers to coordination of economic activities between the government and a firm, provides privileges, and enables the two parties to build on the relationship and move forward. Reciprocational relationships may make it harder for late movers to establish strong ties with political actors, at the same time as political actors may favor the first mover due to social bonds and obligations even if an immediate gain is not visible. Reciprocity theory therefore points to the durability of business-government relationships, which can provide a basis for maintaining FMAs over time.

CASE STUDY METHODOLOGY

Since political behaviors are ‘often covert in nature,’ political resources are difficult to evaluate in quantitative terms, unless studied in the context of a systematic questionnaire survey of managers. Even then managers may be reluctant to disclose
political strategies such as attempts at bribery. However, this article is not aimed at analyzing merely managerial perceptions but rather at determining the actual sources of competitive advantage in the real world. We are interested in possible political events and processes, which may constitute an FMA for specific firms. This endeavor would be very difficult, if not impossible, using statistical analysis. As Shaffer (1995) remarked, ‘events are unpredictable and sporadic; outcomes are hard to specify; coalitions are transient; and the environment is extremely complex.’ Case study methodology lends itself better to investigating the significance of political events and processes.

A further reason for adopting a case study approach is that research on the link between political resources and FMAs is almost non-existent in the mainstream business literature, as demonstrated earlier. It is yet too early to embark on a process of hypothesis testing, as the issue still requires a more careful conceptualization and theory building. As Eisenhardt (1989) argued, the case study approach is especially appropriate in new topic areas. For the above reasons, our study adopted a case study methodology.

Given our interest in understanding how FMAs can be obtained in the global economy, we aimed to study the process of obtaining FMAs in entering foreign marketplaces. As our research focused on the process of how political resources can translate into FMAs, we specified that our selected case studies had to be major firms which are said to have obtained a substantial FMA in a major world market primarily as a result of political processes. Since any case study research faces the problem of generalization, our research design attempted to ensure broad geographic focus of the study as much as possible. We also attempted to ensure a broad sectoral focus of the study to control environmental variation. Finally, we sought three case studies of different time-spans.

Our three case studies—Shell-BP in Nigeria, Volkswagen in China, and Lockheed Martin in Russia—fit our initial sample specifications, coming from three major markets in different parts of the world and from three very different sectors, and all three firms are said to have obtained substantial FMAs in entering the respective markets. Shell has been Nigeria’s largest foreign investor since the start of oil production in the 1950s; Volkswagen has become China’s largest automobile producer, and Lockheed Martin’s joint venture with Russian firms is the leader in the global market for commercial space launch services. Hence our findings cannot be accused of being related to some anomalies in non-market behavior but rather deal head-on with the process by which major foreign firms entered important new marketplaces.

Our study combines multiple collection methods. We wanted to examine how the three first movers benefited from political resources to achieve FMAs. As most of the events took place a long time ago, it is very hard to trace actors who were involved. Most of them left their company, retired, or died. Therefore, the primary data source for this research has been archival data and interviews with key actors, supplemented by published material. The Shell-BP case study, which deals with an FMA obtained several decades ago, relied heavily on archival work conducted at the BP Archive at the University of Warwick, the Public Record Office in London, and the United States National Archives. The Volkswagen and the Lockheed Martin cases, which are more contemporary, relied heavily on interviews with the relevant company managers. We conducted at least five in-depth interviews with managers for each of those case studies. The interviewees were all senior managers of either the first mover or the latecomer, who were personally involved in taking key strategic decisions over the expansion of the respective companies in China and Russia and had intimate knowledge of the dynamics of creating and using political resources. Because of the diverse sources of information and data, we have constantly cross-checked information and data from different sources to increase the reliability and accuracy of our explanations. This allowed us to be confident in our case study analysis.

CASE STUDY 1: SHELL-BP IN NIGERIA

Case history of first mover
In 1938, a joint venture between Shell and BP was granted an exclusive oil exploration license covering the entire territory of Nigeria. Nigeria, at the time, was a British colony, which it remained
Table 1. Overview of case studies

<table>
<thead>
<tr>
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<th>Market entry</th>
<th>Production start</th>
<th>Current market share (%)</th>
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<tr>
<td><strong>Shell-BP in Nigeria</strong> a</td>
<td>1938</td>
<td>1957</td>
<td>39</td>
</tr>
<tr>
<td>Late movers</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Mobil (now part of Exxon)</td>
<td>1955</td>
<td>1969</td>
<td>23</td>
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<tr>
<td>Chevron (formerly Gulf)</td>
<td>1961</td>
<td>1965</td>
<td>20</td>
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<tr>
<td>Texaco (now part of Chevron)</td>
<td>1961</td>
<td>1970</td>
<td>4</td>
</tr>
<tr>
<td>Agip</td>
<td>1962</td>
<td>1970</td>
<td>7</td>
</tr>
<tr>
<td>Elf (now part of Total)</td>
<td>1962</td>
<td>1966</td>
<td>5</td>
</tr>
<tr>
<td><strong>Volkswagen in China</strong> b</td>
<td>1982</td>
<td>1985</td>
<td>40.2</td>
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<tr>
<td>Late movers</td>
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<tr>
<td>Shanghai GM</td>
<td>1997</td>
<td>1999</td>
<td>9.4</td>
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<tr>
<td>FAW-Xiali</td>
<td>2000</td>
<td>2002</td>
<td>9.4</td>
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<tr>
<td>Guangzhou Honda</td>
<td>1998</td>
<td>2001</td>
<td>5.7</td>
</tr>
<tr>
<td>Tianjin Toyota</td>
<td>2000</td>
<td>2002</td>
<td>2.1</td>
</tr>
<tr>
<td>Beijing Hyundai</td>
<td>2002</td>
<td>2002</td>
<td>2.2</td>
</tr>
<tr>
<td>Yueda-Kia</td>
<td>1998</td>
<td>2002</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Lockheed Martin in Russia</strong> c</td>
<td>1993</td>
<td>1996</td>
<td>50</td>
</tr>
<tr>
<td>Late movers</td>
<td></td>
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<tr>
<td>Boeing</td>
<td>1995</td>
<td>1999</td>
<td>8</td>
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<td>Arianespace</td>
<td>1996</td>
<td>1999</td>
<td>42</td>
</tr>
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a Market share refers to crude oil production by ventures operated by the company in Nigeria (2001 data).
b Market share refers to number of car units sold in China (2002 data).
c Market share refers to global satellite launches using assets from Russian partnerships by number of launch contracts awarded (2003 data).

until 1960. In December 1957, Shell-BP started oil production. While BP’s assets in the joint venture had been nationalized in 1979, Shell has remained the largest oil-producing firm in Nigeria and the country’s major foreign investor to date. As new companies entered Nigeria, Shell’s share of oil production declined from 100% in 1960 to less than 40% by 2001 (see Table 1). However, as a result of the initial asymmetry, Shell has retained its dominant position until today, despite the opening up of large new oil exploration areas and the entry of dozens of other oil firms into Nigeria.

An obvious and crucial explanation for Shell-BP’s FMA in Nigeria is that the joint venture held the majority of oil licenses at the country’s independence. There were three types of license: at first, a company obtained an oil exploration license (OEL); once the OEL expired, the same oil company could either surrender the exploration area or apply for an oil prospecting license (OPL); after the OPL expired, the oil company could obtain an oil mining lease (OML). In January 1960 and in January 1962, the OPLs granted to Shell-BP under colonial rule had expired. The OPLs gave a venture the right to take up to 50 percent of the area under OMLs for a period of 30 or 40 years.\footnote{Circular Letter of A. C. F. Armstrong, Permanent Secretary in the Ministry of Lagos Affairs, Mines and Power to Shell-BP, Gulf, Pan American, Standard Oil, Mobil and California Exploration Company (August 1, 1959), File POWE33/421, Public Record Office, Kew, London.}

Shell-BP, unaffected by competitors, was able to acquire 46 OMLs covering 15,000 square miles (approximately 38,850 km²) for 30 or 40 years in the areas with the best geological indications for oil deposits, an area almost the size of Switzerland. Therefore, it is evident that the nature of the licensing process made political resources most valuable at the early stages of industry formation; a first mover was able to preempt rivals by securing long-term leases in the most promising areas. From this perspective, dependence on political resources was at its highest during early market entry.

The role played by Shell-BP was not simply that of a passive receiver of government favors. Archival evidence shows that Shell-BP managers had privileged access to British government officials and used that resource to obtain more favorable treatment. When Shell-BP’s oil
exploration licenses (OELs) expired in the early 1950s, the British government amended the terms of the oil prospecting licenses (OPLs) in favor of Shell-BP in Nigeria. The Nigerian colonial government, with the full authority of the British Secretary of State for the Colonies, agreed to increase the size of Shell-BP’s OPLs. It appears that the decision was made at the request of oil managers. An internal oil company report in 1954 stated that ‘As a result of representations made by Shell D’Arcy [renamed Shell-BP in 1956], the Central Government have agreed that the area of these licenses shall be increased from 500 sq. miles to 2,000 sq. miles and the obligation to drill a well shall be at any time during the period of the license.’ Under these terms, Shell-BP had to apply for only six or seven licenses, as against approximately 28 licenses for the same area under the previous regulation. This reduced the number of wells that the company was obliged to drill to meet license terms. Using access to government officials, Shell-BP was therefore able to affect a change in government regulations in order to reduce its costs of oil exploration.

The departure of British colonial administrators in 1960 did not end Shell’s ability to influence political outcomes. From the late 1950s—when Nigerians took over the responsibility over oil industry matters from the British—Shell built up a network of political contacts at the highest levels. Political activities were used strategically at crucial moments, for instance, through donations. Just before the Nigerian Council of Ministers discussed negotiations with Shell-BP regarding oil licenses in 1958, the company donated funds for the expansion of technical education in Nigeria to obtain more favorable treatment. At the same meeting in August, the Council then discussed two memos: one dealing with Shell-BP’s assistance to technical education and another dealing with licensing negotiations. Strategic interventions of this type helped the company to benefit from key decision-makers’ reciprocity at various points.

At a minimum, reciprocal relations with key government officials allowed Shell to avoid some of the political risks which befell others, including its business partner BP, and helped Shell to reduce the threat from the phenomenon known as the obsolescing bargain. An example was the political debate over fiscal terms for oil companies in 1958. Thanks to the earlier use of political resources, Shell-BP was previously promised that the company would not pay any tax until 1974. But the Minister of Finance wanted to amend the company’s favorable fiscal terms in 1958, while the oil minister Mohammadu Ribadu (a Shell-BP ally) defended Shell’s fiscal terms. The oil minister pointed out in a cabinet meeting that Shell-BP ‘were the first company to undertake oil exploration in Nigeria and that the whole question of tax worried them a lot’ and that ‘it was desirable that the Government be sympathetic to that pioneer organization.’ Following the oil minister’s intervention, the Nigerian Council of Ministers agreed on a compromise whereby the date on which the first tax would be payable would be 1962, not 1974 as the previous agreement suggested. However, ‘the total amount of tax payable before 1974 would be less than that payable if the allowances were limited to ensure the payment of a quarter of the tax otherwise payable.’ Therefore, Shell continued to gain profits from more advantageous early terms, which were unavailable to late movers.

This case suggests that Shell was able to obtain an FMA in Nigeria with the help of political resources. Having the longest time-span of our three case studies, this case indicates that FMAs can be sustained over a very long period of time. However, political resources were not sufficient to maintain an FMA. Thanks to technical and financial resources, Shell-BP was able to expand its drilling program in the late 1950s despite its initially uncertain success, which might have discouraged other, less financially resourceful, competitors. The expanded drilling program provided Shell-BP with geological information necessary to make reasonable guesses about the location of the most prolific oil reservoirs. Therefore, Shell-BP’s FMA in Nigeria was the result of a combination of political and non-political resources and depended as much on the venture’s skills and

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2 Letter by the Permanent Secretary, Ministry of Lands, Mines and Power in Lagos to J. M. Kisch, the Colonial Office in London (June 25, 1957), File CO1029/255, Public Record Office.


active behavior as on the British government’s initial grant of exclusive oil licenses. An important lesson of the case is that the firm resources, led to Shell-BP’s initial monopoly position, were not necessarily enough to sustain Shell-BP’s FMA in the long term. Nigerian government policy threatened Shell-BP’s privileged position at various times. Thus Shell’s ability to upgrade its political resources in the new post-colonial Nig- erian environment was instrumental in maintaining its FMA.

Case history of late movers

Until the mid-1950s, Shell-BP had a formal monopoly over exploiting oil resources in Nigeria, which was actively supported by the colonial authorities. Before the 1950s, Socony-Vacuum Oil (later renamed Mobil) had already sought oil concessions in Nigeria and the Gold Coast (Ghana). The U.S. government actively supported Socony-Vacuum’s efforts in Nigeria throughout the Second World War, but the British government repeatedly refused to grant oil concessions to the company. Political resources protected Shell-BP from any competition. In this context, the late movers’ key weakness was their lack of a British base. This was perhaps somewhat surprising in that Royal Dutch/Shell was also not purely British. It was an Anglo-Dutch firm with a 60 percent Dutch share ownership and archival materials suggest that British colonial officials viewed Shell with a certain measure of suspicion. However, a 40 percent British ownership and its close association with the state-owned BP proved to be key resources for Shell, which allowed the company to receive favors from the British government in contrast to the foreign late movers.

In 1955, the British government turned around and granted Socony-Vacuum an exploration license, despite the fact that Nigerian legislation formally barred the entry of non-British oil companies. Archival data clearly shows that this change in policy was related to the growing bargaining power of the U.S. government vis-à-vis the British government. A senior official of the British Colonial Office summarized the British predicament as follows:

For some years a number of our territories have received a limited amount of technical assistance from the United Nations and from the United States. While we have been glad in many cases to help the territories to get this assistance, there have been not a few cases where we have felt that both the Colonial and United Kingdom interests would be much better served if we could supply (good) British subjects instead of foreigners.7

As the British government came to face economic difficulties and became dependent on U.S. assistance, the U.S. government insisted on a better treatment of U.S. firms—especially those with influence in Washington—within the British Empire. Therefore, the very entry of Socony-Vacuum in the mid-1950s was made possible through its political resources.

From the late 1950s, successive Nigerian governments pursued a policy of diversification in order to expand the country’s oil sector. Oil concessions were granted to Tennessee in 1960, Gulf (later Chevron) in 1961, American Overseas (also known as Amoseas) in 1961, Italy’s Agip in 1962, France’s SAFRAP (later Elf) in 1962, Phillips in 1965, and Exxon in 1965. As a result, nine foreign oil companies were engaged in exploration in Nigeria by 1965. By 1971, five latecomers started producing oil in Nigeria (see Table 1).

Nonetheless, given Shell-BP’s ability to choose the most promising concessions, newcomers were merely confined to market niches left behind by the first mover. Furthermore, Shell’s superior political resources slowed down the progress of late movers. One example was that the colonial authorities refused to release previous geological data to late movers (even on concessions abandoned by Shell), so that an official of the British Ministry of Power noted in 1959 that ‘any new applicant practically starts anew unless he purchases from Shell-BP the main geological data’.8

The late movers’ greatest gains were in offshore exploration and production. With respect to new offshore licenses, the Nigerian Council of Ministers in 1959 agreed that ‘not more than four blocks of 1,000 square miles each should be granted in the

6 Memo from the Division of Near Eastern Affairs (December 30, 1942), State Department Decimal File no. 880.6363/5, United States National Archives (Record Group 59), Washington, DC.


Continental Shelf area to any one company.9 Of 10 licenses for offshore blocks granted in 1961, four were awarded to Shell-BP and two each to Mobil, Gulf (later Chevron), and Amoseas (a Chevron-Texaco venture). Subsequently, the late movers were able to fully eclipse Shell-BP in offshore production thanks to their superior non-political resources, that is, technical skills in offshore exploration. Gulf, Mobil, and Texaco were much more successful in offshore operations than Shell. By 1975, Shell-BP accounted for 77 percent of onshore discoveries, while the three U.S. firms—Gulf, Mobil, and Texaco—accounted for 76 percent of offshore discoveries (Madujibeya, 1975: 3). The late movers’ superior non-political resources help to explain why Shell was not able to extend its dominant position in onshore operations to those offshore. In more general terms, this suggests that the relative strength of the late mover may help to neutralize the first mover’s pioneering advantages.

CASE STUDY 2: VOLKSWAGEN IN CHINA

Case history of first mover

Volkswagen (VW) was one of the first international car manufacturers to initiate commitment to China and was the first to conclude an international joint venture (IJV) agreement in China’s auto sector. The first contact between the Chinese government and VW took place in 1978. In 1982, VW and the Chinese government signed a trial assembly agreement for manufacturing the VW Santana in Shanghai. A year later they signed a 25-year joint venture (JV) agreement with Shanghai Automotive Industrial Corporation (SAIC) for Shanghai Volkswagen Automotive Co. Ltd (SVW). SVW was established in October 1984 and started operations in September 1985 to produce the VW Santana model. A year later they signed a 25-year joint venture (JV) agreement with Shanghai Automotive Industrial Corporation (SAIC) for Shanghai Volkswagen Automotive Co. Ltd (SVW). SVW was established in October 1984 and started operations in September 1985 to produce the VW Santana model. Ever since, VW has dominated the Chinese car market. In 2002, VW held a 40 percent share of the Chinese car market, with SVW providing the majority of VW’s sales (see Table 1).

In the late 1970s and early 1980s, the Shanghai government regarded auto-making as the city’s ‘first priority industry.’ The Shanghai government looked for a strong and trustworthy international partner with whom to build a partnership to help China upgrade its automobile industry. Soon after SVW was established, the regional government gave it a special status, it listed SVW as a ‘pillar firm’ in the Shanghai’s government development plan, and it implemented various policies to support SVW. Although SVW was not a project of the central government, it was championed and supported by senior political figures in Beijing. The support by the central government was partly due to the fact that those who were involved in establishing SVW were later powerful political actors in the central government. They include the President of China, Jian Zemin, (until 1987 mayor of Shanghai, 1987–89 party secretary of Shanghai) and Prime Minister Zhu Rongji. In addition, the support and assurances given by the German government assisted VW’s market entry into China. Interview data suggest that from the start the German government, VW, and the Chinese government put an effort into making the SVW joint venture a success. The fact that SVW enjoyed highest-level political support from the German government enabled Chinese and German government officials to work together to jointly solve some of SVW’s critical problems on various occasions.

Thanks to its political resources, SVW received preferential treatment in taxation, foreign loans, exchange rates, and procurement of materials. For instance, when SVW faced trouble in 1985 due to the city’s failure to raise funds to develop necessary infrastructures for the localization projects, the vice mayor intervened and solved the problem. Similarly, in 1998, the Shanghai municipal government levied a $10,000 license fee on SVW rival Citroen cars made in the nearby Hubei province.

Interview data strongly suggest that political resources were crucial to establishing an FMA. During the 1980s and 1990s SVW’s political capital was used as a barrier to entry for late movers to some segments of Shanghai’s institutional market, which accounted for over 90 percent of the total market. For example, the Shanghai municipal government once required that every city taxi must be SVW’s Santana model and it still levies a lower license tax to Santana buyers who live in its suburban areas. As a result, most of the taxis in use in the urban areas are SVW Santanas, accounting for over 80 percent of the taxis in Shanghai alone. Political resources also assisted VW to cope better with the high uncertainty of the Chinese business

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environment, as no firm would have been able to plan for all possible future contingencies during the early formation of industry structures. Thanks to the special relationship with Chinese officials, VW was confident that Chinese officials would help them make necessary adjustments as conditions change, as one manager noted. Furthermore, being first to market helped SVW negotiate a better deal than that of late rivals. Interviewees reported that the negotiations between the Chinese partners and VW led to the birth of the IJV laws in China. As one interviewee put it, ‘at the negotiation table we have written the Chinese laws on joint ventures ... we had nothing apart from a little booklet with some regulations. Everything else both partners had to find out in talking to each other.’ Helping to formulate the rules of the game inevitably disadvantaged late rivals. Most crucially, interview data suggest that SVW benefited from the fact that Shanghai mayor, Zhu Rongji, was sympathetic in the first years of operations and as a result the Shanghai government often sided with the SVW position at a time when an FMA was established.

Even before it entered China, VW realized that it needed strong political capital if it was to alleviate the likely costs of market uncertainties and possible opportunistic behaviors of its Chinese partner. Similarly, from the Chinese perspective, Chinese officials realized that VW would be more willing to bring in new technology and share information with Chinese partners if they could trust their Chinese partners not to poach their technology or behave opportunistically. The fact that both the Chinese government and VW had resources and capabilities beneficial to, but not possessed by the other party, created a simultaneous strategic interdependence between the two parties.

While the interdependence between VW and the Chinese government created the necessary conditions for SVW to establish political capital, interviewees noted that interdependence per se was not sufficient to account for the formation of political capital. VW needed a management team capable of establishing and nurturing such resources. Interview data suggest that VW deliberately set out to utilize its extensive previous experiences in dealing with political actors in developing countries such as Brazil, Nigeria, and Yugoslavia. These prior experiences greatly helped to navigate China’s political arena. One interviewee explained how his experience in managing a VW plant in a country where political connections and tacit unwritten rules and regulations mattered made him aware of the importance of political institutions and how to deal with political actors. Another interviewee noted that, because of his previous experience, he was aware of the fact that transactions in emerging economies such as China were based on non-contractual, rather than contractual mechanisms. He added that by developing political capital they eliminated the need for further formal contracts, which would be costly to monitor and impossible to enforce in China.

Prior experiences related to political capital and the initial support by the Chinese authorities were not sufficient by themselves to maintain political backing over time. All interviewees emphasized the fact that Chinese officials took a strategic decision to assist SVW as a result of trustworthiness that arose from dealing with SVW managers. Reciprocal relationships can help to explain why senior government officials were prepared to grant concessions to VW, even if the government had little to gain in the short term. For instance, while the Chinese authorities insisted on localization for foreign auto firms, the State Council and the State Planning Commission granted SVW 2000 additional import licenses for so-called ‘complete knocked down’ (CKD) kits in 1989. Similarly, VW granted several concessions during the early stages because of the expectation that the Chinese partner would reciprocate in the future. In addition, VW’s CEO showed genuine interest in Chinese operations by visiting China not less than twice a year, partly in order to maintain top-level relationships.

Case history of late movers

Not long after VW’s market entry, several other foreign auto producers were allowed into the Chinese market, including Beijing Jeep (1983/started production 1985), Guangzhou Peugeot (1985/started production 1987), and Tianjin Daihatsu (1986/started production 1987). Our interview data suggest that these early late movers (1980s until mid 1990s) failed to challenge SVW’s FMA because they lacked non-political and/or political resources.
First, after VW entered China, the Chinese government had become less dependent on latecomers with regard to non-political resources. Once the Chinese government established links with VW to upgrade its auto industry, late movers added less to the technological capabilities already transferred or promised by VW. Furthermore, our interviewees noted that finding a capable and reliable world-class partner willing to help China to launch its key industry was a costly and time-consuming process, which perhaps deterred the Chinese from searching for new partners.

Second, the commercial progress of late movers was inhibited because they lacked the political resources of the first mover. The high commitment of the Chinese and VW to their mutual relationship led to stronger ties between the two partners characterized by a solid reciprocal relationship. One German SVW manager noted that because of the risk VW took to enter China first, it expected loyalty from its Chinese partners and pressured its Chinese partners to have a ‘monogamous’ relationship with VW by precluding late movers from generating political capital. In contrast to VW, late movers lacked the capabilities, and in some cases the will to generate political resources in China. For instance, in the case of Peugeot, the project ‘never seemed to be a priority of the head office in Paris’ and ‘the fact that Peugeot’s CEO visited China for the first time in 1994 to sell his shares to Honda after its IJV failed is an indication of not taking China seriously by the French company,’ as put by one interviewee. Further, Guangzhou Peugeot JV went ahead with the project without the approval and blessing of the central government in Beijing. The lack of will and political resources played a key part in Peugeot’s withdrawal from China in 1997.

Similarly, Beijing Jeep lacked the skills to generate and use political capital in China. Soon after the Beijing Jeep JV contract was signed, Jeep realized that the modernization of the old technology inherited from its Chinese partner was going to be much higher than expected. Subsequently, rather than developing a new Jeep as agreed with the Chinese government, the JV decided to import Cherokee parts and assemble the Cherokee without the approval of top-level Chinese officials. In contrast to SVW, which negotiated and obtained an import license for CKD parts, Beijing Jeep went ahead with import of parts and assembly of the Cherokee without an import license. Furthermore, and partly due to lack of political capital, Beijing Jeep did not obtain similar support to that of SVW when it faced foreign exchange shortage in 1986. This led to the so-called ‘Beijing Jeep 1986 crisis’ which resulted in Beijing Jeep’s president Don St. Pierre threatening the Chinese to stop new investments, put a hold on the technology transfer policy, and call back Jeep’s experts from China. Despite its threats, Jeep did not receive a reply from Chinese officials; production was halted for 2 months and Jeep’s management made the threats public by publicizing them in international business outlets such as the Wall Street Journal and Business Week. While an agreement was later reached between Jeep and Chinese officials, the confrontational attitude of U.S. managers precluded Jeep from developing a reciprocal relationship with the government, even if there was a will to do so. The failure to generate strong political capital was a crucial explanation of why Jeep had produced no more than 9294 cars by 1999.

The biggest challenge to VW’s dominant market position in China came from a second wave of late movers in the late 1990s, notably General Motors (GM). As the size of the market for up-market cars grew during the late 1990s, the Shanghai Automotive Industrial Corporation (SAIC) (VW’s original partner) formed multiple relationships with different local and foreign companies in the late 1990s and early 2000s, which aided the entry of GM as a new latecomer in 1997. One of the key aims of SAIC’s partnership with GM was to produce ‘up-market’ cars, a growing niche not targeted by SVW. However, being late to market, GM had to overcome higher barriers to entry than those imposed on SVW and early movers in the 1980s. This put GM in a weak bargaining position vis-à-vis SAIC. As a result, GM’s cost of entry was reported to have been high. Further, GM was pressured by SAIC to produce the up-market Buick model rather than a small car—the SAIL—appropriate for the Chinese market as GM originally planned. As Oliver puts it, ‘poor timing was the main reason why GM found itself so exposed to the “whims of Chinese policy.” Had GM entered China 15 years before, when the country was looking for foreign investment, it could have had “a sweet deal” such as VW. GM paid dearly for the Shanghai license, out-bidding Ford because it thought the window was closing’ (Oliver, 2003: 148–149).
However, wittingly or unwittingly, SAIC’s JV with GM—Shanghai General Motors Company Limited (SGM)—has put pressure on SVW to change its production policy (relying on a single product) and upgrade its technology. The cornerstone of SGM strategy was to roll out new products faster than SVW. SVW replied to SGM strategy by upgrading its production plants to produce world-standard quality cars and introduce new models faster than it did previously. By 2002, SVW was producing several different models in Shanghai, i.e., the Santana (since 2000), Passat (since 2000), Polo (since 2001), and Golf (since 2002); this helped to slow down GM’s gains in market share for a number of years. VW’s ability to match GM’s non-political resources—especially in terms of its innovativeness—helped the firm to maintain its FMA. Likewise, thanks to its superior non-political resources, GM has made major inroads into the Chinese auto market in recent years and has come to seriously threaten VW’s dominant position and may well overtake VW’s market share, which demonstrates that political resources are not sufficient to maintain FMAs.

**CASE STUDY 3: LOCKHEED MARTIN IN RUSSIA**

**Case history of first mover**

Lockheed Martin (then Lockheed Corp.) came to Russia on the back of a JV with two Russian aerospace firms in 1993 and, being a first mover amongst the Western aerospace firms in Russia, was able to gain access to previously restricted key assets. The entry of foreign firms into the Russian market must be seen in the context of the global marketplace, as it played a pivotal role in the formation of the global market for commercial launch services. In the early 1990s, a global market for commercial launch services emerged, making possible the lofting of the vast satellite infrastructure required to power the explosion of global telecommunications that occurred during that decade. The emergence of this new market was made possible by a series of unilateral, bilateral, and multilateral government decisions, ranging from regulatory reform to the signing of international treaties, that established new parameters within which private firms and public entities could operate and compete on a global basis. The U.S. firms that became Lockheed Martin were able to convert their first mover position amongst Western aerospace firms in Russia into a dominant market share in the now fully global satellite launch services sector.

During the Cold War, access to launch services for public and private entities was tightly regulated by, and in many cases controlled by, nation-state governments because of their close linkage to strategic defense requirements. After the end of the Cold War, successive U.S. administrations took steps to liberalize the space sector. Coinciding with the election of U.S. President Bill Clinton in 1993, Russian firms seeking satellite launch customers began to approach Western firms about forming launch services partnerships. For their part, the Clinton administration operationalized the new pro-commercial U.S. space policy by launching two major initiatives at President Clinton’s first summit meeting with President Yeltsin in April 1993. The first was a highest-level binational commission to promote cooperation between the two countries called the U.S.–Russian Joint Commission on Economic and Technological Cooperation (known informally as the Gore–Chernomyrdin Commission or ‘GCC’). In the space sector, GCC’s aims included promoting cooperation between NASA and the Russian Space Agency, promoting integration of Russian firms into the global production chain through contracting to build portions of the International Space Station, and, crucially, promoting the privatization of Russian firms and commercialization of Russia’s space sector to facilitate JVs and subcontracting agreements between U.S. and Russian firms. The second Clinton initiative was to negotiate a bilateral treaty (signed in September 1993), which removed Cold War era technology transfer barriers and opened the way for Russian firms to participate in the global commercial launch services market (U.S.–Russia Trade Agreement 1993).

The undertakings of the GCC and the 1993 treaty enabled the commercialization of Russia’s aerospace sector. In April 1993, the same month as theClinton–Yeltsin summit, Lockheed Corp. formed a joint venture with Khunichov, a publicly owned firm that Yeltsin had created by decree in 1993 by combining various state aerospace design and construction facilities, and RSC Energia (privatized in April 1994), called Lockheed–Energia–Khrunichev International (‘LKEI’), to market globally commercial launch services for payloads.
aboard Proton rockets from the Baikonur Cosmodrome. In 1995, Lockheed Corp. and Martin Marietta merged to form Lockheed Martin, which then established Lockheed Martin Commercial Launch Services Company (‘LMCLS’) to market launch services using Lockheed Martin’s Atlas II and III rocket boosters to be launched from Cape Canaveral and Vandenberg Air Force Base, California. LMCLS and LKEI then joined forces to form a highly innovative new company, International Launch Services (‘ILS’), to market jointly the commercial launch services of the Proton and Atlas boosters on a global basis. The first ILS commercial launch using a Proton booster took place in 1996, and business grew steadily.

Lockheed Martin’s early entry into Russia allowed the company to benefit from the technological base and infrastructure of the Russian firms. The company was able to get access to key assets including technology (such as the Proton rocket booster and the RD180 engine) and launch facilities of the Baikonur Cosmodrome in Central Asia. Having sufficient launch platform capacity and a full range of launch vehicles (rockets) to accommodate different size payloads would be major determinants of who would succeed in capturing new market share, so an FMA in Russia gave the company a crucial advantage in the global market for satellite launches. All of this was made possible by a favorable political business environment. U.S.–Russian public cooperation in the space sector gave a privileged position to U.S. companies in Russia. More specifically, Lockheed Martin was able to draw on their prior political capital in the United States as a major defense contractor for the U.S. government, while the Russian partners (who had a history of being state-owned enterprises) had superior knowledge of Russia’s institutional environment. Indeed, one interviewee suggested to us that RSC Energia’s selection of Lockheed as an original JV partner was partly dictated by the desire to ‘co-opt a large industrial partner with significant influence in the U.S. government’ because RSC Energia needed U.S. approval for importing satellites.

The U.S. and Russian governments actively supported the ILS venture; for instance, the Russian government negotiated with the government of Kazakhstan to allow ILS the use of the Baikonur space facility in Kazakhstan. Dependence on this political support was at its highest during early market entry, as the 1993 treaty set quotas on the number of commercial launches from Russian launch platforms. Originally set at eight launches over the course of the treaty’s 8-year duration and revised when the treaty was amended in 1996 to three-quarters each year of the total number of annual global projected launches, these quotas were intended to ensure that integration of Russian assets into the global marketplace would be orderly and encourage competition according to fair market principles (U.S.–Russia Trade Agreement 1993, 1996). In practice, these quotas meant that the first mover would have the first choice to use the Russian launch slots, which had the effect of discouraging additional early entrants into the Russian market. Once the 1996 amendment to the treaty raised the number of permitted launches, ILS was already beginning launches from Baikonur, and its competitors were 3 years behind. In December 2000 the quotas were ended altogether, by which time Lockheed Martin and ILS had established a competitive advantage over global rivals. Political support also helped ILS to cope better with existing government restrictions in the space sector (e.g., pricing restrictions) and to obtain speedily the required government permits (e.g., export licenses), amongst others. As one interviewee put it, ‘because of Lockheed Martin’s access to governments, we were able to put issues in front of decision-makers’, which helped to solve many critical problems.

Lockheed Martin managers were not simply using political resources to create rents like Shell-BP or SVW, but rather used political capital to compete globally against their rivals. For Lockheed Martin, using non-market resources to enter Russia meant forming a JV with two of the largest Russian aerospace firms that procured hardware, technology, and access to a major launch platform, the Baikonur Cosmodrome—market resources needed to gain an advantage over its global competitors. In this way Lockheed Martin was able to achieve a dominant position in the new global launch services market by offering customers a fuller range of types of booster, launch date, and location than it could have done using solely U.S.-based assets.

**Case history of late movers**

Several years after Lockheed Martin’s entry, other major Western firms were able to enter into partnerships with Russian firms. Indeed, entry into
Russia proved essential for company survival in the formation of the global market for commercial launch services. Lockheed’s key U.S. competitor in the early 1990s, McDonnell Douglas, lost out in this global market precisely because it did not enter Russia and did not obtain Russian technology, which put Lockheed at a competitive advantage; McDonnell Douglas was subsequently purchased by Boeing.

In contrast to McDonnell Douglas, Boeing and Arianespace entered Russia in the mid 1990s. In 1995, Boeing joined with Russian RSC Energia, the Ukrainian aerospace firm Yuzhnoye Yuzhmash, and Norwegian shipbuilders Kvaerner to form SeaLaunch, an ambitious venture to use Russian assets in launching commercial payloads from a mobile floating platform towed from its Los Angeles home port to a Pacific Ocean location on the equator; SeaLaunch lofted their first satellite in 1999. In 1996, Arianespace joined with Ariane rocket launch integrator EADS (the European Aeronautic Defence and Space Company), Russian firm Samara Space Center (‘TsSKB Progress’), which manufactures the Soyuz booster, and the Russian Aviation and Space Agency to form Starsem, an enterprise to market launch services using Soyuz boosters launched from Baikonur. Starsem’s first Soyuz with a payload was launched in 1999. In addition to the Starsem JV, Arianespace also contracted with Samara Space Center to supply the Soyuz booster for launch from Arianespace’s Kourou Spaceport in Guiana, which collectively gives Arianespace the same range of boosters for different-sized satellite payloads and choice of launch sites held by Lockheed Martin/ILS.

Nonetheless, Boeing and Arianespace failed to exploit their Russian partnerships to the same extent as Lockheed Martin. Evidence provided by a Lockheed Martin official interviewed suggests that in 2003 they captured 52 percent of their addressable market, the 2.5–6 ton payload market serviceable by ILS’ Atlas V and Proton boosters, compared to 40 percent for Arianespace/Starsem and the remaining 8 percent for SeaLaunch (see Table 1), although an alternative method of measurement by Arianespace puts Lockheed Martin’s market share somewhat lower. Our interview data suggest that the timing of entry into Russia played a key role in influencing these relative market positions and that late movers in Russia failed to challenge Lockheed Martin’s/ILS’s dominant global market position because they either lacked key non-political or political resources.

The case of Boeing is instructive, as the firm had comparable political resources to those of Lockheed Martin, having previously acted as a contractor to the U.S. government and enjoying strong reciprocal relationships with high-level political actors in the United States. Just as Lockheed Martin, Boeing had the opportunity to benefit from the U.S.–Russian accords in the early 1990s in achieving an early entry into Russia. However, Boeing had a different market strategy from that of Lockheed Martin by choosing to develop a new way to launch commercial satellites via launches from ships on the equator, which was then believed to be cheaper than using sites further away from the equator. The firm believed that a new technology would be cheaper and more reliable than building a new launch pad somewhere on the equator. In the process, the challenge proved technically more complex and not as cheap or reliable as had been previously envisaged. In other words, while Boeing had strong political resources, it lacked the non-political resources to succeed. Indeed, interviewees at Lockheed Martin and Arianespace argue that Boeing will ultimately not survive in the satellite launch market because they are unable to launch enough satellites per year to achieve operational excellence (at the time of writing, they have achieved an annual launch rate of three to four launches per year, whereas our interviewees suggested that a minimum of six to seven launches per year would be necessary).

In contrast to Boeing, a key weakness of Arianespace was its lack of a U.S. base and the related lack of political backing in the United States, which prevented the firm from entering Russia at the time of U.S.–Russian accords in the early 1990s. The late entry into Russia disadvantaged Arianespace in the early formation of a global satellite launch market, not least because access to Russian assets enabled firms to lower their cost base. By the mid 1990s, even the French President Jacques Chirac was very concerned about Europe being excluded from the advantages of Russian resources in commercial satellite launch services and pressed for the costly Ariane IV
booster to be replaced by the reliable yet inexpensive Soyuz vehicle. By that time Cold War era CoCom technology transfer restrictions had ended, and European firms did no longer require the same level of political and regulatory reforms to enter into cooperation with Russian firms that American firms had previously needed.

However, the lack of political resources continued to hamper the use of Russian assets by Arianespace. Arianespace faced difficulties in using Soyuz at Kourou to launch satellites for U.S.-based commercial customers because of onerous technology transfer-related security requirements imposed by the U.S. government upon Arianespace’s use of Russian equipment and workers. Arianespace must meet these requirements as a condition of the U.S. government granting export licenses for the satellites to be shipped to Guiana for launch. According to an Arianespace interviewee, these security requirements seem not to be problematic when the same U.S. customers ship satellites to Baikonur for launch atop Proton boosters sold by ILS, the implication being that U.S. officials continue to confer favors upon Lockheed Martin by applying remaining export control security regulations in such a way as to disadvantage Arianespace. Political resources also remain crucial to success in the Russian business environment, not least because many of the major Russian aerospace players, such as Khrunichev and Samara Space Center, remain in the public sector.

Although the satellite launch market is costly and time consuming to enter, this has not discouraged new enterprises from attempting to enter it. Chinese enterprises are already in the market, while interviewees expect Indian firms to enter within a decade. But the reciprocal relationships that have developed between Lockheed Martin/ILS and the U.S. and Russian governments are likely to preserve the venture’s advantageous position in the global market for some time to come.

**DISCUSSION**

An analysis of the three case studies sheds light on how political resources can lead to sustainable FMA. Insights from both resource dependence theory and reciprocity theory have offered useful theoretical lenses for interpreting the empirical evidence. On the one hand, government intervention at the early stage of industry formation was found to be crucial in creating an initial asymmetry among competitors, enabling the first mover to gain a head start. From this perspective, the first mover’s dependence on political resources was at its peak during this early stage. On the other hand, an early market entry allowed first movers to establish a lasting relationship with host country governments, which was based on reciprocity. In turn, reciprocal relationships with political decision-makers allowed firms to maintain their FMA as organizational surroundings evolved.

Since the case studies encompassed both first movers and late movers, our investigation allowed us to understand a wide range of factors, which either impede or promote the creation and continuation of FMAs. The case studies thus provide a unique opportunity to derive inductively a generic model on how political resources influence the evolution of FMAs. As Lieberman and Montgomery (1988, 1991: 21–22) have pointed out, the impact of the FMA is determined by the firm’s skills and positions, the first mover’s competitors and changes in the business environment. This threefold division is an appropriate starting point for our discussion and will guide us in constructing our model. We have partly modeled this inductive approach on McKendrick’s (2001) article in *SMJ*, which uses case study evidence to develop a model and propositions.

**Business environment**

The political business environment has had a paramount influence on the evolution of FMAs in all three cases under investigation. The existence of regulations such as government licenses and export permits as well as the ability of government officials to influence industry development through the interpretation of rules and regulations were crucial in creating favorable conditions for the creation of FMAs as a result of firm-specific political resources. Conversely, the absence of the government’s interest in influencing the industry’s development would result in a less favorable business environment for firms with political resources. The importance of political resources is thus likely to vary by industry.

This finding falls in line with previous research which has long recognized that the value of political resources is likely to be more important the more opportunities are controlled by governments and their value is likely to vary.
between industries (e.g., Baron, 1995). While government involvement may be country-specific or firm-specific, research has shown that certain sectors such as extractive industries, finance, and infrastructure-related sectors are particularly prone to government interference (Kobrin, 1980; Wells and Gleason, 1995; Henisz, 2003). Electricity rates or major extractive investments tend to be highly visible to the consumer and there may be a societal expectation for such sectors to fulfill public objectives such as equity or national sovereignty. Governments are therefore ‘likely to intervene frequently to obtain the desired balance between private [profit maximization] and public objectives’ in these sectors (Henisz, 2003: 177). By extension, a firm’s political resources may be more likely to lead to FMAs in business environments characterized by high government involvement. Thus we expect:

**Proposition 1:** The greater the government interference in the industry, the more likely it is that political resources will lead to FMAs.

The case studies further demonstrate that the cooperative interplay between home and host country governments was important in creating an FMA. Intergovernmental cooperation can be important in situations where a first mover requires the host government to reaffirm previous advantageous treatment by the home government (the case of Shell), where intergovernmental cooperation can help to resolve day-to-day operational problems (the case of VW), or where such cooperation can endow first movers with unique non-political resources (the case of Lockheed Martin). This is as yet an under-researched area, although indirect support for the importance of intergovernmental cooperation for first movers can be inferred from recent work on the adoption of technical standards (Lembke, 2002; Spar 2001a, 2001b). Therefore:

**Proposition 2a:** During the early formation of an industry structure, the active assistance by the home government and the host government is positively related to the likelihood that political resources will lead to FMAs.

**Proposition 2b:** The greater the cooperation between a firm’s home and host governments, the greater the likelihood for a strong FMA.

The political business environment can be a key determinant of an FMA, but it may evolve over time. The relative stability of the political business environment played an important role in safeguarding the FMA in all three cases under investigation. Conversely, a shift in that environment could have weakened the FMA; hence a first mover needs to consider the potential stability of the political landscape over time. Indeed, the obsolescing bargain model informs us that drastic changes in the political business environment may be inevitable in some industries, as the bargaining power shifts in favor of the host government once the initial investment is made and the project is properly established (Vernon, 1977; Vachani, 1995). By implication, a change in the terms of investment (through a renegotiation of previous concessions or a shift in government policy) could weaken the position of the first mover. Alternatively, a government’s decision to interfere less in a given industry (e.g., through a shift of support toward other industries or deregulation) could lead to a shift of the
locus of competitive advantage away from political resources. In other words, favorable industry structures related to political resources could prove transitory if the rules of the game change. Thus, we would predict:

Proposition 3: Political resources will be less conducive to FMAs, if the political business environment is changing and/or the locus of competitive advantage is shifting.

Firm characteristics of first mover

This article demonstrates that a firm’s political resources can lead to FMAs, which is backed by our three case studies. A corollary question is whether strong political resources can justify early market entry in general. Indeed, our evidence suggests that political resources are of utmost importance during early formation of industry structures when first movers have the opportunity to influence industry structures from the start (e.g., by influencing the development of industry regulation). Insights from the resource dependence perspective, reciprocity theory, and research on entry barriers support these conclusions. Furthermore, empirical studies have shown that early government intervention in the market may help to establish an industry-wide technical standard (Lembke, 2002) or it may provide first movers with the opportunity to choose the most valuable market assets (Frynas et al., 2000), with the result that the industry becomes ‘locked’ into a certain path of development. Therefore:

Proposition 4a: The greater a firm’s political resources, the greater the likelihood for an FMA.

Proposition 4b: Political resources are most valuable during the formation of industry structures.

Our evidence does not suggest that political resources are sufficient in themselves to establish FMAs. Shell-BP’s entry was welcomed in Nigeria as the government needed an experienced international firm with sufficient financial and managerial resources to jump start the country’s oil industry. Similarly, the Chinese and Russian governments welcomed VW and Lockheed Martin respectively, as they valued the firms’ unique market resources such as technology and capital. Political resources are likely to be of little value by themselves unless they are combined with other valuable non-political resources.

At the same time, our evidence suggests that political resources must be closely integrated with non-political resources into effective business strategies. To illustrate this point: during the 1950s Shell-BP first intervened in the formulation of government oil concessions (use of political resources) to reduce its exploration costs; then the firm pursued a more aggressive exploration program (use of non-political resources) in order to be able to select the most promising government concessions. Thus, the use of political resources in establishing an FMA needs to form an integral part of the firm’s overall strategy; the CEO needs to properly understand the interdependence between political and non-political strategies. Previous work supports this conclusion (Baron, 1995, 1997). As Baron (1995: 64) argued: ‘Nonmarket strategies must not only be formulated and implemented effectively, but they must also be integrated with market strategies.’ Therefore:

Proposition 5a: The richer a firm’s non-political resources, the more likely its political resources will lead to FMAs.

Proposition 5b: The greater the integration of political resources and non-political resources into an effective business strategy, the more likely a firm’s resources will lead to FMAs.

The evidence suggests that building up political capital through networking at various levels is a sounder long-term strategy than relying on inherited political capital, especially when that capital is tied to a particular regime or faction. In line with recent research on the role of institutional factors in international investment strategies (Holburn, 2002; Henisz, 2003), the evidence highlights the importance of organizational learning when dealing with the political business environment. Continuous learning about the political environment and upgrading of political resources was necessary to sustain the FMA in all three analyzed cases. Organizational learning theory informs us that prior learning facilitates the learning of fresh, related knowledge (Cohen and Levinthal, 1990, 1994). This insight can help to enlighten our investigation insofar as the absorption of learning about the political environment was possible because
the analyzed firms already had considerable prior experience and prior political resources. Firms without those characteristics would have found it difficult to absorb experiences about the political process and to obtain political resources. Therefore, our research suggests that the ability to cope with the political process can be learned and, by implication, can lead to a key competitive advantage. While we recognize that organizational learning is country-specific to some extent, our investigation suggests that knowledge of how to cope with the political process is transferable across borders. Indeed, previous research by Henisz (2003) suggested that the ‘evolution of learning processes’ with regard to idiosyncratic institutional environments ‘is particularly important, as in the absence of such learning, international investors’ advantage over their domestic counterparts could well prove transitory.’ Thus:

Proposition 6a: Firms with high prior experience related to political resources will have higher chances of obtaining FMAs.

Proposition 6b: Sustaining an FMA will be contingent upon continuous learning related to political resources.

Firm characteristics of late mover

The business literature suggests that the potency of an FMA not merely depends on the business environment and the characteristics of the first mover but also on the relative strengths of late movers; the first mover may be ultimately overshadowed by a firm with superior resources (Lieberman and Montgomery, 1988, 1991). By extension, we posit that late movers with superior political resources vis-à-vis the first mover could have a late mover advantage. The loss of global market share by Arianespace to ILS illustrates this point: the access to both Russian and American governments smoothed the way for Lockheed Martin into Russia, which in turn helped the ILS venture to reconstitute the global market previously dominated by Arianespace (a firm reliant on French and other EU government support). Political resources are likely to be most crucial during early formation of industry structures and they may lead to durable reciprocal relationships with host governments, but first movers may not be able to protect their pioneering advantages if a late mover with superior political resources is able to influence a shift in the business environment in its favor. Therefore:

Proposition 7: The weaker the second mover’s political resources, the greater the likelihood for strong first mover advantage.

Just as the first movers’ non-political resources are instrumental in creating a durable FMA, the second movers’ non-political resources and an integrated business strategy may help to decrease late mover disadvantages. To illustrate this point: despite Shell-BP’s pioneering advantages in Nigeria, its relative lack of expertise in offshore exploration and production technology curbed the firm’s expansion in offshore oil production, which became dominated by the late movers Chevron and Mobil. As pioneers may face first mover disadvantages such as free-rider effects or shifts in technology or customer needs (Lieberman and Montgomery, 1988), late movers can use their skills to capitalize on those opportunities. Research on privatization has indicated that, even if pioneers are able to gain strategic advantages through collaboration with the host government and other local network partners, late movers may become influential competitors if they exploit opportunities for market entry (e.g., resulting from a first mover’s reliance on an outdated technology) on the basis of superior non-political resources (Doh, 2000). Thus:

Proposition 8: The weaker the second mover’s non-political resources, the greater the likelihood for strong first mover advantage.

Evidence in this paper supports an interactive, rather than additive, effect of first mover characteristics, late mover characteristics, and the business environment on firm performance. Utilizing the above eight propositions, we propose a model on how political resources influence the evolution of FMAs.

We posit that the initial government interference in an industry must be the starting point for any such model. Unless an industry is politically structured, political resources cannot generate value for the firm (P1). In order to obtain an FMA in a politically structured industry, the first mover requires political resources (P4a and P4b) which are superior to those of late movers (P7). As a corollary
of the above, the government must actively support the first mover during the early formation of industry structures (P2a and P2b). But political resources are not sufficient to obtain an FMA without valuable non-political resources and effective integration of market and non-market strategies (P5a and P5b). As long as the late movers are unable to use non-political resources to neutralize the first mover’s resources (P8) and as long as the political business environment does not shift decisively to the detriment of the first mover (P3), the conditions are favorable for the pioneer to safeguard its initial advantages. Finally, the pioneering firm must be capable of learning in order to maintain the FMA, as the business environment evolves and the late movers upgrade their resources (P6a and P6b). This inductive model is presented in Figure 1.

CONCLUSION

This article has shown how political resources can lead to significant FMAs in the international marketplace, by using case studies from different countries and industries. This analysis is consistent with past research, which suggested that government intervention could create very effective (sometimes the most effective) barriers to entry in an industry. In a new market where early entry is restricted by the government or where economic success is influenced by linkages to government officials, political capital can be the key resource in competing for early market entry and in creating economic advantages to the early entrant. By adding the political mechanism to the current classification of FMA mechanisms, our contribution consists of a more complete specification of the currently prevailing FMA conceptual framework.

Nonetheless, the case studies suggested that the causal relationship between political resources and FMAs is a complex one. Political resources can lead to early market entry (as seen most clearly in the case of Shell-BP) but firms can also obtain considerable political resources by being first to market (as exemplified by Shanghai VW). Neither can FMAs be taken for granted. Sustaining FMAs depends on the pioneer’s capabilities in both the market and the non-market arena. The pioneering success of Shell-BP and Shanghai VW depended on various market and non-market resources ranging from the strength of financial resources to the diplomatic skills of managers in dealing with government officials. Moreover, both the strategies of rival firms and government intervention can challenge the privileged position of pioneers. The loss of global market share by Arianespace to ILS across different market segments demonstrated that non-market strategies can indeed be used by late movers to neutralize the rivals’ FMAs. Therefore, we find that non-market strategies can be used successfully by both first movers as well as late movers. In this context, our model and propositions help to understand the contingencies under which political resources will translate into durable FMAs.

The article points to the continued importance of political resources despite the advent of liberalization and globalization. But our third case study indicates that liberalization has rendered political intervention in the economy more complex and more covert. In contrast to the overt protectionism we witnessed in the cases of Shell-BP and SVW, the Lockheed Martin case was marked by highly sophisticated political cooperation between governments, which did not necessarily involve the creation of explicit market distortions. At the same time, the analysis of the global market for commercial space launch services indicates that globalization is shifting the scope of competition from the country level (seen in the first two case studies) toward the global level. In the future, pioneering advantages from non-market strategies are perhaps less likely to be endowed by unilateral domestic protectionism but rather by complex international political cooperation in terms of pooling economic resources, establishing regional (rather than country-wide) barriers to entry or establishing global technical standards, which may benefit some firms at the expense of their rivals. Yet these conclusions must be seen as highly tentative given the limitations of this article.

Our research findings draw on a narrow sample of case studies, so we need to be very cautious about making any generalizations at this point. The use of reconstructed histories as primary sources may introduce further bias. However, while the small size of the sample and the subjectivity of reconstructed histories present methodological limitations, the current over-reliance on publicly available data such as political action committee (PAC) contributions in studying business–government relations is unlikely to yield the
Figure 1. Model of the link between FMAs and political resources.
same depth of insight provided by a small number of longitudinal case studies. Indeed, since the creation of political resources is intended to benefit the firm in the long term, the current analytical focus on short-term correlations between inputs such as PAC contributions and outcomes such as favorable regulation can only provide a very incomplete view of the political engagement of firms. Our study will hopefully stimulate more future research, which will take a more long-term view on how international firms acquire, sustain, and exploit political resources, and in particular how firms learn from their experiences about the political process.

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