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2000, Vol. 25, No. 3, 551-571.

## **ENTREPRENEURIAL PRIVATIZATION STRATEGIES: ORDER OF ENTRY AND LOCAL PARTNER COLLABORATION AS SOURCES OF COMPETITIVE ADVANTAGE**

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Firm-level responses to privatization have not been widely studied. Drawing from industrial organization economics, the resource-based view, and interorganizational cooperative strategy, I develop an integrated theory to show how privatization encourages early entry; how delayed market liberalization reinforces first mover benefits; and how firms with specialized resources, an entrepreneurial orientation, and local partner collaborations gain postprivatization competitive advantage. I construct a model and provide case illustrations to support the theoretical development, discuss implications of the research, propose methods to test the model, and make suggestions for future inquiry.

Privatization has become a mantra of national economic policy makers, investment bankers, management consultants, and regional and local public administrators. A broad consensus has emerged within academic, public policy, and managerial circles that market-based approaches should be considered as potential responses to the social and economic failures of traditional government-owned enterprise and government-provided services. Privatization is now a pervasive and integral part of government management and organization and a significant force in the industrial structure of national and regional economies. Brazil alone is expected to auction off more than \$80 billion in public assets before its latest round of privatization is over (Kambhato, 1998). To most researchers and analysts, privatization connotes the transfer (not necessarily sale) of assets, functions, or responsibilities from government to private hands or, in more limited examples, any

form of private participation in government-owned enterprise or operations.

The specific approach, terms, and outcome of the privatization process, however, can have myriad forms. For example, in some instances a loss-making government corporation is given to a private firm or sold for a nominal fee. Other privatizations, especially those in Russia, the Newly Independent States, and Eastern Europe, have included the distribution of shares to the general public—the technical “owners” of capital when these economies were organized according to socialist principles. In other situations only a minority portion of the assets is distributed, with the majority shares remaining in government hands. In this article I deal with one of the most common privatization transactions: the competitive auctioning of state assets to private investors. In most instances investors bidding on these privatizations take the form of a consortium composed of international firms and local partners, one of which is typically the incumbent provider.

Privatization programs and policies have been studied at several levels. In most research scholars have focused on the economic and social rationale for privatization or on specific questions related to how governments can better achieve certain socioeconomic goals through alternate privatization structures and policies. In normative studies researchers have argued, on economic philosophy grounds, the advantages and benefits of privatization as a way to

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I thank the special issue editors, especially Professor Duane Ireland, and the three anonymous reviewers for their insightful comments on earlier versions of this article. I also acknowledge Hildy Teegen, Douglas Sanford, Robert Weiner, Jeffrey Cummings, and Gary Jones, all at the George Washington University, for assistance with earlier stages of this research. Cooperation from a number of government agencies and private companies was instrumental in preparation of this article, as was the research assistance of Alison Kruchkowski. An earlier version of this work was presented at the 1999 annual meeting of the Academy of Management.

minimize government involvement in areas where the social good or service justification for government provision is no longer defensible. Much of the contemporary literature on privatization has emanated from the economics and finance disciplines (e.g., Boubakri & Cosset, 1998; Caves, 1990; Dewenter & Malatesta, 1997; Megginson, Nash, & Van Randenborgh, 1994; Perotti & Guney, 1993; Vickers & Yarrow, 1991; Yarrow, 1986). In many of the economic studies, researchers have sought to determine the success of privatization as measured by efficiency and, in some instances, social welfare (Boubakri & Cosset, 1998; Megginson et al., 1994; Perotti & Guney, 1993). Some practitioner literature has emerged from management journals and multi-lateral development organizations in which scholars provide advice to governments as they wrestle with the challenge of integrating their economies into regional or global systems (Durschlag, Puri, & Rao, 1994; Galal & Shirley, 1994; Money & Griffith, 1993). Other researchers have offered helpful generalizations in reviewing past privatization (Hensley & White, 1993; Lieberman, 1990, 1993; World Bank, 1992).

Very few scholars have examined the strategies of private investors and developers in response to privatization programs. Uhlenbreck and DeCastro note that "empirical research and theory on direct investment into former SOEs, unfortunately, is scant" (1998: 620). An understanding of the unique set of factors influencing successful corporate responses to privatization, however, is becoming an integral component of the international strategies of private firms. This is especially the case for firms doing business in infrastructure industries, such as telecommunications, electric power, water, and rail and road transportation, as they seek to capitalize on massive divestitures.<sup>1</sup>

<sup>1</sup> I am primarily concerned in this article with corporate strategic responses to emerging markets' privatization of infrastructure industries: telecommunications, oil and gas, electric power, water, and transportation. These industries constitute the majority of privatizations in recent years (approximately \$75 billion of the \$123 billion in emerging markets privatization from 1990 to 1996, according to the World Bank), and they share several common elements. First, because of historical approaches to industries featuring long-run declining average costs, these industries typically were organized as national, regional, or sectoral monopolies, either as a single government agency or government-owned corporation. Second, in some of these industries—notably,

In this article I explore several factors that contribute to firm-level responses to privatization opportunities. To begin, a brief justification for an integrated theoretical framework for understanding firm-level responses to privatization is presented. I argue that the necessary antecedents for construction of such a theory can be found in the industrial organization (I/O) and resource-based strategy schools and suggest that specific conditions suggested by these theories—notably, first mover and order-of-entry effects, pioneering advantage, and firm-level entrepreneurial orientation—are particularly applicable to the circumstances surrounding privatization. I offer propositions to illustrate how these factors affect firm-level competitive positioning in response to privatization. Following this, in the next section I apply emerging literature on social network theory and interorganizational dynamics to privatization strategy. Specifically, I identify cooperative strategy, social network externalities, and strategic alliances and joint ventures with host country firms and other stakeholders as especially important in establishing a competitive privatization strategy. I then discuss the implications of this analysis using case illustrations and make suggestions for empirical methods that could be used to test the arguments presented here. I conclude with suggestions for further research, focusing on additional theoretical grounding that may be relevant in the case of privatization, and further study—conceptual, theoretical, and empirical—that could add to our understanding of firm-level responses to privatization. The principal contribution of this article is the development of an integrated theory of firm-level privatization strategy.

#### EARLY ENTRY AS A SOURCE OF COMPETITIVE ADVANTAGE IN PRIVATIZATION

In this section I review the limited research on corporate strategic response to privatization, ar-

telecommunications and electric power—privatization is followed by market liberalization, allowing other entrants to participate in the market post privatization. Often, a period of protection is provided the incumbent and its foreign and/or local partners. This "liberalization lag" poses interesting theoretical and practical questions that I explore later in the article.

guing for better-developed theoretical models to understand and inform this growing phenomenon. The theoretical basis for construction of such a model of corporate privatization strategy can be found in two established wings of strategic management—notably, the I/O economics and resource-based views of strategy. Early entry and entrepreneurial orientation are presented as the most relevant elements of these literature streams. I construct propositions to operationalize this theory in the particular case of privatization.

### Privatization and Corporate Strategy

Research in which scholars have examined foreign investor response to privatization has been limited. In some managerial-oriented literature, researchers have provided advice and recommendations for investors and governments. The few existing studies have been focused primarily on the response by Western investors to privatization in Russia, the Newly Independent States, and Eastern Europe. Filatotchev, Hoskisson, Buck, and Wright (1996), for example, surveyed privatized Russian enterprises to determine the degree to which foreign investors and local partners were able to transform state-owned enterprise (SOE) ownership, human resource, and financial structures. These researchers found that despite structural, regulatory, and cultural constraints, U.S. investors were able to reform and restructure privatized enterprise. After 2 years of postprivatization experience, however, most firms had not demonstrated increased investment levels, reduced wages (an imputed measure of increased labor productivity), or improved trading relationships (Filatotchev et al., 1996).

DeCastro and Uhlenbruck (1997) examined differences between developed and developing country privatization programs and firm strategies. They found that privatization deals in less developed countries (LDCs) and former communist countries (FCCs) were more likely to include postprivatization conditions than deals in developed countries but that LDCs and FCCs were no more likely than developed countries to impose job, local ownership, and "other" conditions (DeCastro & Uhlenbruck, 1997). Further, privatization deals were more likely to be cross-border acquisitions in LDCs and FCCs than in developed countries (DeCastro & Uhlenbruck, 1997).

These findings are consistent with the "nascent capital markets" view of Perotti and Gunev (1993) and Dewenter and Malatesta (1997) that presumes limitations in domestic capital for privatization investments. In a recent conceptual analysis of privatization from the investor perspective, Uhlenbruck and DeCastro (1998) examined privatization using mergers and acquisitions theory. These researchers suggested that firms evaluate the degree to which characteristics of the former state ministry or state-owned firm are compatible with the investors' interests and that a "strategic fit" is necessary for successful integration of foreign investors with local SOEs (Uhlenbruck & DeCastro, 1998).

Managerial and policy-oriented research has provided helpful guidance because of the implications it draws from past practice. Much of the literature, however, is atheoretical or does not include well-developed theory, the authors relying instead on stylized facts. Specifically, these researchers have rarely used established managerial theory to examine the strategies of foreign investors responding to privatization, with some notable exceptions (e.g., Uhlenbruck & DeCastro, 1998).

### Corporate Privatization Strategy: I/O and Resource-Based Views

Two main frameworks for analyzing the determinants of corporate strategic advantage have prevailed over the past several decades. Proponents of the I/O view of strategy argue that firms earn supranormal returns primarily by exercising monopoly power (Bain, 1956). Monopoly power, in turn, exists to the extent that the firm or industry has erected barriers to entry that restrict competitive forces. Law and economics I/O economists, such as those studying utility economics (e.g., Kahn, 1988), examined the linkages among industry structure, conduct, and performance in order to derive public policies that promote competition (Demsetz, 1973). More recently, corporate strategic management researchers have adapted the industrial economics view of industry configuration to explore, from a managerial perspective, the impact of industry structure, dynamism, entry and exit barriers, and learning effects on the competitive position of the firm (Porter, 1980, 1981, 1985, 1986, 1990, 1991). The I/O approach to strategy emphasizes the advantages of entering markets in

which competition is stifled, positioning the firm to influence the terms of such competition through the erection of mobility barriers and, in so doing, generating surplus rents (Caves & Porter, 1977; Porter, 1980). These conditions are especially acute in the case of privatization. Privatization presents a limited, abrupt market disruption, allowing entrants to shape the terms of competition for years to come through marketing, public policy, technological lockout, and other means.

Despite the widespread influence of I/O concepts on strategic thinking, scholars have also questioned their utility. In particular, the I/O school has been criticized for inattention to the dynamics of competition, the relative performance differences among firms within the same industry (Rumelt, 1991; Wernerfelt, 1989), and the influence of technology and technological change on the business environment (Nelson & Winter, 1982). In response to the emerging view that the I/O strategy school was incomplete as an explanation for strategy and competition, researchers began exploring the impact of the development, acquisition, and deployment of firm resources on successful corporate strategies. Building on earlier work by Penrose (1959) and Nelson and Winter (1982), proponents of the resource-based perspective examined the economic returns to resources that a firm owns, acquires, or develops (Barney, 1986, 1991, 1995; Nelson & Winter, 1992; Peteraf, 1993). Resources must demonstrate a specific set of characteristics in order to generate above-normal returns (Barney, 1991; Peteraf, 1993). They must be valuable in facilitating exploitation of an opportunity in the business environment or at least contribute to neutralizing a threat. They must also be scarce or must come together in a unique way as a result of how the firm packages or bundles them (Barney, 1991; Teece, 1986). In addition, resources must be immobile (Teece, 1986). Imperfectly immobile resources include those that are idiosyncratic to the firm (Williamson, 1979), those for which property rights are not well defined (Dierickx & Cool, 1989), or those that are cospecialized with other assets (Teece, 1986).

A related characteristic to that of imperfect mobility is imperfect imitation (Barney, 1991). Resources must provide some *ex post* limits to competition. Once a firm has gained an initial competitive advantage, there must be additional resources to freeze out competitors and

allow the firm to maintain rent-earning status for a period of time (Peteraf, 1993). For a firm to be in a position to exploit a valuable and rare resource, it must have a resource position barrier preventing imitation by other firms (Wernerfelt, 1989). Hence, sustaining a competitive advantage over a period of time requires the presence of isolating mechanisms that prevent imitation (Lippman & Rumelt, 1982).

Privatization involves the acquisition, stockpiling, and, most important, exchange of resources. The government must evaluate the revealed and tacit resources of the investing firm and decide how best to encourage the transfer of those resources to foster entrepreneurial transformation of the SOE and the broader market environment. The investor must evaluate the visible and tacit resources of the SOE, the government itself, and local firms with which the investor may partner. Both governments and investors seek a "strategic fit" through integration of resources among investor firms, host governments, and the SOE (Uhlenbruck & DeCastro, 1998). The monopoly concession typically provided as part of the privatization may itself be viewed as a resource or strategic asset that can be deployed and leveraged (Kay, 1995). The cost to acquire that very valuable resource, however, might include social goods provided by the investor beyond the narrow requirements of the privatization contract. Hence, intangible resources, such as political legitimacy and reputation, also might play a role in firm-level competitive positioning.

The I/O school and resource-based view are often contrasted as two antithetical approaches to strategy, yet proponents of these two views draw upon several common theoretical assumptions. First, although adherents to the resource-based view emphasize the importance of company-specific resources and competencies, they do so in the context of the competitive environment, especially with the extension of Black and Boal (1994) described later in this article. Both the I/O and resource-based view rely on economic reasoning. Followers of the resource-based view see capabilities as the core of a competitive position but tempered by the influence of fundamental market forces: demand (value), scarcity, and appropriability (Prahalad & Hamel, 1990). Further, although Porter focused almost exclusively on the industry environment, he also advocated specific approaches to respond to that environment with

"focus" and "niche" strategies that acknowledge the importance of unique firm resources (Porter, 1980, 1985). When firms focus on a specialized market, they must possess some unique asset (resource) that allows them to exploit that market. Scholars working from a resource-based perspective commonly focus on resources that generate rents because they are unique or specialized. These include brand names, in-house knowledge or technology, and skilled personnel (Wernerfelt, 1989). These same resources, however, often are employed by the firm in differentiating its products, as Porter proposed (Porter, 1980).

The application of an integrated I/O and resource-based view of privatization strategy would appear to be an appropriate base upon which to build a theory of corporate privatization strategy. Privatization encourages strategies designed to shape and exploit market imperfections, garner monopolizing rents, collaborate with scarce partners, and exploit relationships with government officials. These are all approaches suggested in the I/O view of strategy (Porter, 1981). Moreover, these same strategies, especially when bolstered by firm-level technological prowess, entrepreneurial orientation, and the development of external network relationships, constitute resources that can be deployed to maximize competitive positioning in response to privatization.

### Order of Entry, Pioneering Advantage, and Competitive Positioning in Privatization

Both the I/O economics and resource-based views of competition suggest that the order of entry of firms into a particular market is a relevant determinant of competitive advantage and that there are specific gains from status as a pioneer or first mover. Specifically, a research stream has emerged in which researchers assert that in some industries and economic environments, there are significant economies associated with first mover or early entry positioning.<sup>2</sup>

<sup>2</sup>In this article I review the literature on first mover, order-of-entry, and pioneering advantage as part of a single literature stream. Although there are some differences in this literature in terms of level of analysis (market versus industry versus firm), research questions, and perspectives on the relative importance of early versus later entry, it shares a common focus on the relevance of market entry timing and sequence in determining competitive position.

Broadly, early entrants have the potential to internalize advantages that might be difficult for later entrants to appropriate (Kerin, Varadarajan, & Peterson, 1992; Lieberman & Montgomery, 1988; Mascarenhas, 1992). Patterson defines a first mover as "an organization which is first to employ a particular strategy within the context of a specific scope" (1993: 760).

Researchers have argued for a range of benefits associated with first mover or early entry positioning. These include capturing learning effects for which timely deployment might be key to garnering market share, scale economies that accrue from opportunities for capturing that greater share, and development of alliances with the most attractive (or in some cases only) local partner. Lieberman and Montgomery (1988) have suggested that first mover advantages are best measured in terms of the firm's ability to earn positive economic profit. Three ways to achieve a first mover advantage are through attaining technological leadership, preempting scarce assets, and increasing buyer switching costs (Lieberman & Montgomery, 1988).

Technological leadership represents the potential for a company to gain an advantage by capturing and internalizing technological superiority, including harnessing research and development and garnering patent abilities. This leadership contributes to an "experience curve" effect: as a company becomes more experienced, it uses innovation to produce output at a lower production cost (Porter, 1985). From a resource-based view, technological leadership constitutes a firm-level resource that is idiosyncratic to the firm, immobile, and inimitable.

Preemption of scarce assets can include being the first to purchase input factors, move into a specific location, and invest in plant and equipment. A first mover could acquire such assets by having superior information and purchasing assets at market prices below those that would prevail later in the evolution of the market.

Porter (1980) focused on the power of buyers and the attractiveness of industries in which buyer switching costs are high. Lieberman and Montgomery (1988) subdivided the category into three types of switching costs: (1) financial transaction costs required to switch to new products from old ones, (2) time and money required to teach and learn how to use a new product; and (3) contractual costs, which are usually created by the seller.

The definition of exactly which entity constitutes a first mover in a privatization transaction requires exploration and clarification. When discussing first mover advantages generically, one assumes firms enter a market in which there are no dominant incumbents and that the market itself is open to new entrants. In the case of privatization, however, it appears as if an adaptation of first mover theory is appropriate. In most cases an auction or tender takes place in which foreign firms are offered the opportunity to partner with the incumbent firm. When accorded the ability to serve both as a first mover and incumbent, market entrants reap benefits from both the pioneering position and the power of incumbency.

Privatization implies a radical, discontinuous change in marketplace conditions. When a SOE is sold, the transaction presents a one-time adjustment in the industry environment, inviting a restructuring in which there will be specific beneficiaries and losers. In particular, privatization creates an environment especially suitable for the erection and maintenance of high entry barriers and subsequent market closeout, making the stakes especially high for participation in the process as an early mover.

*Assumption 1: Privatization generates strong first mover pressure.*

*Proposition 1a: Privatization confers first mover benefits.*

*Proposition 1b: First mover benefits are strengthened when the investor is able to integrate with the incumbent.*

### **First Movers, Market Liberalization, and Time/Benefit Contingency**

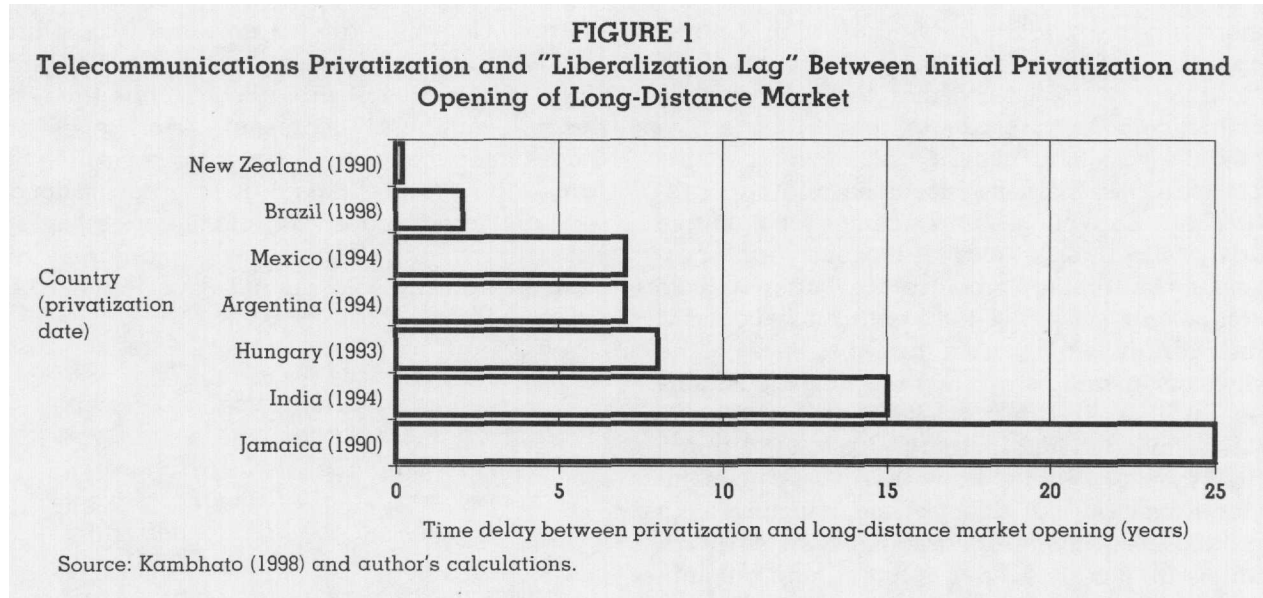
The value of first mover status varies partly in relation to its sustainability—that is, the duration and longevity of the first mover barriers. Patterson (1993), in studying six industries, mapped an opportunity curve within which these strategic barriers dissipated, arguing that barriers conferring uniqueness are the most valuable tools for preserving first mover advantage. In the case of infrastructure privatization, first mover advantages, in theory, have great durability in that concessions often include the right to provide monopoly service indefinitely. In infrastructure privatizations, however, sale of

the SOE most often is followed later by market liberalization, providing the first mover a limited window in which to capitalize on that entry status before rivals are permitted to compete in the market.

*Proposition 1c: First mover advantages will be strengthened when a privatization transaction includes a monopoly concession or purchase agreement that provides protection from market competition for a designated period.*

In the case of telecommunications, which constituted nearly a quarter of the value of all emerging markets' privatization in the period 1990 to 1996, privatization includes an initial sale of the state-owned or controlled monopoly, followed by market liberalization in which other investors are permitted to participate selectively in the newly privatized industry (Kambhato, 1998). Drawing from this World Bank analysis (Kambhato, 1998) and my own calculations, I show in Figure 1 the delay between the initial privatization of telecommunications monopolies in major countries around the world and the subsequent opening of long-distance markets in those same countries to competition from other private sector entrants. This is the period within which the initial entrant, partnered with the incumbent, is fully protected from competitive threats from subsequent market entrants. This figure illustrates the critical role played by government regulation on the structure and timing of postprivatization market opening.

First movers might create economies of scale, generate the ability to earn greater market shares, and erect barriers to entry (Patterson, 1993). A first mover can position itself to consume all future benefits if it can use temporal strategic barriers successfully. The later the followers, the greater the first mover advantage for the pioneering firm (Patterson, 1993). Or, as proponents of the resource-based perspective would suggest, there must be barriers to constrain the appropriation of resources acquired as part of early mover positioning (Barney, 1991). If the first mover can use temporal strategic barriers successfully, it should be able to achieve benefit flows through entering early, which will, in turn, discourage followers. As mentioned above, in infrastructure industries this notion incorporates the function of market liberalization, which in large part determines the length



of time a first mover will remain alone in a recently privatized market. According to the resource-based view, once a firm has used resources to gain a competitive advantage, there must also be resources to freeze out competitors and allow the firm to maintain a surplus rent-earning status for a period of time (Peteraf, 1993).

*Proposition 1d: First mover competitive advantage will be lessened by the expected or actual liberalization of the newly privatized market; the sooner the market liberalizes, the less the first mover advantage will be.*

Many privatizations are conducted in multiple stages, partly because of domestic capital market constraints (Dewenter & Malatesta, 1997; Perotti & Guney, 1993) and learning curve effects. This suggests there is another cycle of first mover advantages that persists well beyond the

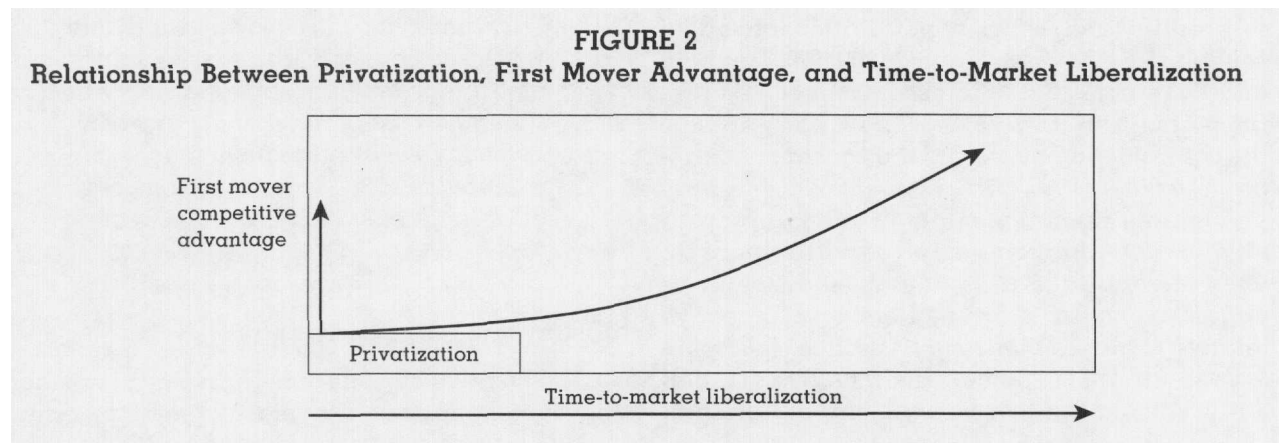
initial period of monopoly protection, giving the first entrant an "insider" position in participating in subsequent rounds.

*Proposition 1e: Participating in the first or early rounds of the multistaged privatization of a SOE increases post-privatization competitive advantage.*

Figure 2 shows a simple, stylized representation of the relationship between privatization, first mover advantages, and market liberalization. As the "liberalization lag" between privatization and market liberalization lengthens, the value of the first mover position grows exponentially.

**Pioneering Advantage, Entrepreneurial Orientation, and First Mover Characteristics**

Both the I/O and resource-based strategy schools suggest that certain types of firms are



more capable of taking advantage of first mover opportunities than are others. Lieberman and Montgomery (1988) note that firms possessing technological and product superiority are in a better position to exploit first mover benefits because they possess resources and capabilities that can be used to achieve competitive advantage through market lockout. Firms possessing marketing prowess are better able to compete as second or later entrants because of their ability to learn from the experiences of the first mover and to attack first mover positions using marketing and sales-oriented strategies (Lieberman & Montgomery, 1988). Additional first mover benefits from these resources include reputational effects from benchmarking products, economic advantages from early attainment of critical sales volumes, and preemptive domination of distribution and communication channels (Lieberman & Montgomery, 1988). Lieberman and Montgomery (1988) also suggest that a firm's resource base tends to influence the likelihood and timing of entry.

Firm-level competitive strategy is influenced by entrepreneurial orientation. Barringer and Bluedorn (1999), for example, found a positive relationship between the intensity of corporate entrepreneurship and specific strategic management practices, such as scanning intensity, planning flexibility, locus of planning, and strategic controls. More specifically, pioneering advantage may be viewed as one element of firm-level entrepreneurial orientation (Cooper & Dunkelberg, 1986). Entrepreneurial firms are proactive, risk tolerant, and innovative (Covin & Slevin, 1989: 79), and they demonstrate flexibility and adaptability to changing environmental conditions (Barringer & Bluedorn, 1999). Proactivity includes the notion of developing an aggressive competitive orientation and the ability to identify and seize opportunities ahead of competitors (Covin & Slevin, 1989: 79). Lumpkin and Dess note that "the essential act of entrepreneurship is new entry . . . new entry is thus the central idea underlying the concept of entrepreneurship" (1996: 135). Elements of an entrepreneurial orientation might include "a propensity to act autonomously, a willingness to innovate and take risks, and a tendency to be aggressive toward competitors and proactive relative to marketplace opportunities" (Lumpkin & Dess, 1996: 135). Some researchers argue that early entry and other dimensions of entrepre-

neurial orientation are not necessarily corollaries but may vary independently (Cahill, 1995, 1996). In the case of privatization, one-time industry reconfiguration presents a unique, anomalous circumstance that generates pressures for firms either to participate or lose out on long-term rent streams derived from the privatization opportunity, as well as to array and deploy resources rapidly to take advantage of that market opportunity.

*Proposition 1f: Firms with a more entrepreneurial orientation (risk tolerant, aggressively competitive, innovative) are more likely to be first movers. Hence, such firms will be more likely to take advantage of and benefit from privatization opportunities than will firms with a less entrepreneurial orientation.*

Firms that participate in early rounds of multi-industry or multifirm privatization may be in a position to deploy their first mover resources and increase the likelihood of success in subsequent rounds in the initial (focal) or other markets. The role of learning in multinational corporation (MNC) internationalization decisions suggests that an effective organization continuously develops new knowledge and incorporates that learning into strategic management decisions (Senge, 1990). The ability of an MNC to learn from experience in foreign markets and then transfer that knowledge to other markets is consistent with a range of research streams in the international business literature, especially studies of the organizational management of multibusiness, multinational firms and their subsidiaries (Prahalad & Doz, 1987; Stopford & Wells, 1972).

*Proposition 1g: First mover status and learning in early rounds of multi-industry or multifirm privatization will strengthen the position of the first mover/incumbent in subsequent rounds and will enable it to compete more successfully in privatizations in other sectors and markets.*

#### Disadvantages of Early Entry

The positive aspects of being a first mover can be overshadowed. The most critical potential



*disadvantage* of first mover status is the opportunity for later entrants to take advantage of the first mover's strategic errors (Kerin, Varadarajan, & Peterson, 1992). The negative attributes of being a pioneer in a market arguably can lead to complete failure—even the demise of the firm. These same disadvantages, however, generate advantages for subsequent firms. Early entrants might see these later entrants benefiting from a "free ride" on the first mover investments, from solutions made to technological problems or an unsure market, and from outdated technology providing a gateway to entry (Lieberman & Montgomery, 1988).

As proponents of both the I/O and resource-based schools have argued, and as Lieberman and Montgomery (1988) elaborate, early entry is most attractive when a firm can influence how market confidence will be resolved. Reliance by first movers/incumbents on outdated technology allows later entrants to become influential competitors in the market. Replacement technology often appears while the old technology is still growing, which could make it difficult for the incumbent to take adequate preventative measures. Incumbent inertia also can make later entry a more attractive alternative. This occurs when the incumbent firm is unable to adapt to changing market conditions because it is tied to past practices. It may have financial burdens or be reluctant to develop new products that could cannibalize its existing merchandise. The position of Telmex, the incumbent state-run telecommunications monopoly in the privatizing Mexican telecommunications market, described in a later section, is characterized by these conditions.

Tellis and Golder conclude that "market pioneering is neither necessary nor sufficient for long-term success and leadership . . . a first strike may be desirable, but careful preparation for attack, counterattack, penetration, and consolidation are critical for success" (Tellis & Golder, 1996: 73). In their exploration of the theory of "competitive dynamics," which involves examining the way that firms act and react to one another, Smith, Grimm, and Gannon (1992) found that a slow second strategy for easy-to-imitate competitive actions might be preferable to first mover, fast second, slow third, and late mover strategies. Moreover, the "winners" in a competitive tender may purchase away the entirety of the first mover benefit, making it diffi-

cult to later evaluate its worth and the ability of that particular firm to deploy resources to fully exploit the first mover position (Thaler, 1991). In sum, erection of barriers to entry has been identified as one of the main contributors to the value of first mover positioning in response to privatization.

*Proposition 1h: First mover positioning will be less advantageous when investor firms lack sufficient resources to erect barriers to entry post privatization or when the liberalization program does not allow for erection of such barriers.*

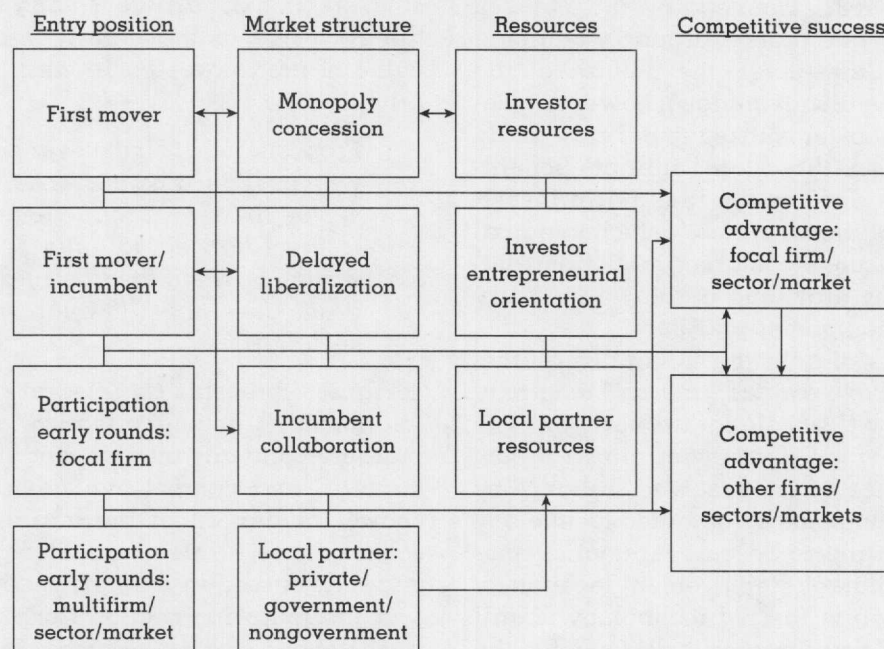
Figure 3 presents an integrated model of the relationships among privatization, first mover pressures and advantages, and first mover firm strategy and competitive advantage. It also shows integration of the variables related to collaborative strategy and local partner alliances discussed in the next section.

In the following section I explore social network theory and interorganizational cooperation as additional theoretical motivations for privatization strategy. These theories and their application provide a complement to the order-of-entry and first mover effects described above. Specifically, I explore the role of local partners, including government agencies and other stakeholders, as resource-generating agents. These collaborations further reinforce the competitive advantages derived from early market entry, especially under the particular conditions of privatization followed by market liberalization.

#### RESOURCE NETWORKS, LOCAL PARTNER ALLIANCES, AND ORGANIZATIONAL LEARNING

First mover and pioneering status imply advantages to be gained from status as an early entrant into a market. Strategic alliances complement, strengthen, and reinforce the competitive position attained by first mover status. I/O and resource-based views of competitive strategy, as well as more recent work on network externalities and interorganizational competitive advantage, have highlighted the importance of learning and knowledge acquisition through network relationships external to the focal organization (Dyer & Singh, 1998). The interaction between early entry status and local

**FIGURE 3**  
**Model of Privatization Strategy: Entry Position, Market Structure, Firm Resources, and Competitive Success**



alliance relationships places the first mover in a powerful position to earn long-term rents from the initial privatization. Alliance partners are in a unique position to influence the postprivatization regulatory environment, particularly by encouraging the erection and maintenance of market entry barriers. Collaboration also might facilitate the early entrant's ability to compete as a "local" firm in subsequent rounds of privatization and to develop resources, capabilities, and knowledge (e.g., Barney, 1991; Black & Boal, 1994) that can be deployed in other privatizing markets.

### Interorganizational Cooperation and International Strategic Alliances

In a rich and increasingly diverse literature, researchers have examined the motivations for collective action via collaborative strategies and alliance structures among firms. The description of international strategic alliances (ISAs) and the exploration of the conditions under which ISAs tend to be viewed by the firm as the preferred mode of entry have occupied a great deal of international business research effort (Buckley & Casson, 1988, 1996; Contractor

& Lorange, 1988a; Kogut, 1988; Root, 1988). More recently, researchers have begun to focus on more specific and more complex explanations of ISA formation. This includes research directed toward understanding the conditions that appear to lead to better or worse ISA performance and endurance and, of interest to this study, the primary motivations for entering into such relationships (Harrigan, 1988; Killing, 1988; Lyles & Salk, 1996; Madhok, 1997; Makino & Delios, 1996). Contractor and Lorange (1988b) have identified a range of rationales for firm-level cooperation, including faster entry and payback, economies of scale and rationalization, complementary technologies and patents, and co-opting or blocking competition. Of relevance to this study, many of these authors also point to the potential for freezing competition and establishing a beachhead position in the market through first mover-like positioning.

Complementing research on ISAs is recent work on interorganizational cooperation and the influence of network resources on firm capabilities. This work suggests that a narrow resource-based view of the firm misses the importance and value of resources that constitute part of a firm network (Dyer & Singh, 1998). Black and Boal (1994) have

identified a critical shortcoming in the resource-based view—notably, that resources are evaluated from a “stand-alone viewpoint.” Barney (1991) referred to bundles of resources, but those working within the resource-based view framework generally treat resources as singular items. Black and Boal (1994) have argued that resources could be separated into contained resources (simple networks of resource factors that can be monetarily valued) and system resources (created by a complex network of firm resources factors). Further, network theorists have illustrated how and when resources combine to add value and how networks facilitate resource exchanges (Thorelli, 1986). Other researchers have suggested that access to information about potential partners constitutes a resource and that such resources are an important catalyst for new alliances, partly because alliances entail considerable hazards (Gulati, 1999). Firms’ capabilities with alliance formation and material resources are factors in their future alliance decisions (Gulati & Garguilo, 1999). Dyer and Singh (1998) have identified four potential sources of interorganizational competitive advantage from alliances: relation-specific assets, knowledge-sharing routines, complementary resources and capabilities, and effective governance. They argue that resources acquired through extrafirm or intraorganizational contacts are critical to competitive success (Dyer & Singh, 1998).

Powerful forces are set in motion by the proposed privatization of state-owned infrastructure industries, previously organized as national, regional, or sectoral monopolies. These forces generate intense pressures on firms to move early to take advantage of one-time ownership options that generate bountiful rent streams for years to come. These first mover pressures, in turn, increase the stakes associated with winning concessions and competing successfully post privatization, prompting firms to form alliances with local partners that can provide market and political/regulatory knowledge. Further, alliances with governments or other stakeholders can smooth the way toward favorable regulatory treatment as the market prepares for open competition and can help erect or maintain market entry barriers. Together, these alliances provide a powerful advantage to early entrants that are difficult for later followers to challenge.

*Assumption 2: Privatization generates strong pressure for firms to collaborate in their efforts to participate in privatization opportunities.*

### **Collaboration and Local Partner Advantage**

Research in strategic alliances and joint ventures indicates a range of rationales for entering into collaborative partnerships. These include co-opting, blocking or freezing competition, and establishing a beachhead position in the privatizing market through first mover-like positioning (Contractor & Lorange, 1988b). As Filatotchev et al. note:

Joint venture arrangements [can be used] as a stepping stone towards closer involvement with other enterprises. Such a route may be feasible where there are entrepreneurs who have links with other firms and where foreign interests without such links are likely to be resisted (1996: 93).

As Madhok (1997) has argued, ISAs facilitate rapid market entry, allow firms to share costs/risks, combine product/market complementarities, and reduce time to market. ISAs are preferable for firms possessing product knowledge but lacking market knowledge (Madhok, 1997). In the highly regulated infrastructure industries, knowledge about the market and regulatory environments is critical to overall strategic decisions about how to deploy or redeploy resources to compete post privatization. Hence, partnerships with local firms connected with regulatory organizations or possessing relationships with incumbent government monopolies will help firms to navigate the postprivatization market and regulatory environment.

*Proposition 2a: Strategic alliances with local private partners will reinforce first mover benefits accorded early entrants in privatization transactions.*

In addition to the strategic alliance and cooperative strategy literature summarized here, researchers have examined other types of cooperative strategies, such as buyer-supplier strategies and stakeholder alliances between firms and their external constituents. Alliance relationships—both traditional and alternate—appear to be on the rise, stimulated by a series of factors in the external environment that are creating turbulence and placing pressure on or-

ganizations to become more flexible, dynamic, responsive, and nimble. In particular, firms participating in the transition from government-controlled monopoly industries to regulated competition must develop alliances and collaborations with government (Baron, 1995; Bodewyn & Brewer, 1995) and nongovernment stakeholders (Freeman, 1984; Mitchell, Agle, & Wood, 1997).

*Proposition 2b: Strategic alliances with local government or nongovernment partners will reinforce first mover benefits accorded early entrants in privatization transactions.*

### **Strategic Alliances and Joint Ventures: The Organizational Learning Motivation**

Learning is a powerful motivating force and competitive advantage in firm-level strategic management. In the strategic alliance literature, several researchers have argued that learning can be an important determinant in the initial motivations for and ultimate success of international joint ventures (Hamel, 1991; Inkpen, 1995, 1996). Barkema and Vermeulen (1998) have applied a learning perspective to determine the conditions under which firms expand internationally, finding that a firm's multinational diversity leads to foreign start-ups, rather than acquisitions, whereas product diversity has a curvilinear effect on the tendency to use start-ups. Makino and Delios (1996) have argued that some kinds of local knowledge cannot be internalized simply as a result of a MNC operating in that market, but acquisition of that knowledge requires indigenous firm experience through partnerships or alliances. As noted above, knowledge of evolving regulatory conditions and how to respond to them is especially valuable to firms operating in infrastructure industries. Moreover, as Makino and Delios (1996) have argued, an understanding of the complex mix of regulations, industry structure, competitive dynamics, and business-government relationships is unlikely to be arrived at simply by operating in that marketplace, especially in the short run.

*Proposition 2c: Local partners who provide tangible resources, such as specific knowledge about markets,*

*regulatory expertise, and political connections, will provide greater competitive benefits than those lacking such resources.*

As was the case with first mover competitive advantage, the value of local collaboration resources will be less if the market opens early to new entrants. That is, the market liberalization timetable will influence the value of local partner collaboration.

*Proposition 2d: Benefits from collaboration will be lessened by the expected or actual liberalization of the newly privatized market; the sooner the market opening, the less the benefit from local partner collaboration will be.*

As noted above, collaboration can yield other valuable information regarding the nature and direction of local market trends and regulatory policy, and it can provide knowledge acquisition opportunities that can be redeployed in other regions and even in other sectors. In Figure 3 the outcome variables include the competitive position of the first mover/incumbent not only in the initial host country market but also in subsequent privatizations in that market or others.

*Proposition 2e: Collaboration with partners in the first or early rounds of the multistaged privatization of a SOE increases postprivatization competitive advantage.*

*Proposition 2f: Collaboration with partners in early rounds of multi-industry or multifirm privatization will strengthen the position of the first mover/incumbent in subsequent rounds and will enable it to compete more successfully in privatizations in other sectors and markets.*

### **ILLUSTRATIONS, DISCUSSION, AND PROPOSED METHODS**

In this section I provide some illustrations and applications of the theory constructed in the previous sections. In addition, I discuss the implications of the theory for understanding the relationship of first mover and early entry effects to successful firm-level privatization strategies.

Preliminary suggestions of methodologies that might be employed to test the relationships proposed here are also offered.

### Contrasting First and Later Movers

It is premature to draw definitive generalizations regarding the potential applications of this theory to corporate privatization strategy, but some examples illustrate its relevance and validity. Specifically, a comparison between first movers and later followers may be useful in an initial determination of the insight offered by this theory.

**Telmex privatization.** In December 1990 the Mexican government accepted a \$1.757 billion bid for a minority (20.4 percent) but controlling interest in Telmex from an international consortium composed of Grupo Carso; Southwestern Bell; and France Cable et Radio, an affiliate of France Telecom. In 1991 and 1992 two more public offerings were made, resulting in combined proceeds of \$6.3 billion (Whitacre, 1994: S24). At the same time, the Mexican government was also in the process of opening the long-distance market to competition but provided for a period of time within which Telmex would maintain its monopoly in order to ready itself to compete against other market entrants. Under Mexican legislation Telmex's long-distance monopoly was due to expire in August 1996, when the government would open the market to international joint ventures in the domestic long-distance market (Trotta, 1996). As part of the North American Free Trade Agreement (NAFTA) negotiations, Mexico agreed to lift all restrictions on investment in the telecommunications services sector, and President Zedillo subsequently decided to waive all entrance fees for those companies applying for telephone concessions. It was hoped that liberalization would bring a more competitive and entrepreneurial telecommunications industry that would be demonstrated by technological advances, an expanding service sector, and greatly reduced telecommunications rates for the Mexican consumer.

After market opening, Telmex faced competitors in the long-distance market but maintained monopoly control over local networks. The ability to "bundle" local and long-distance service and to cross-market and cross-subsidize gave Telmex a strong initial advantage. Moreover, the Mexican government was responsive to providing the Telmex consortium protection and financial support for infrastructure investment,

and it did so partly by charging new carriers a combined U.S. \$423 million to help Telmex pay for improvements needed on the long-distance network (Dombey, 1997).

Telmex was also able to charge interconnection fees that, based on international standards, were artificially high. For example, for 1998 the agreement on fees included a 39.5¢ charge to complete each call on the Telmex local network (*New York Times*, 1998). This fee was more than eight times the equivalent fee charged by U.S. carriers to complete in-bound international calls. The artificially high fee structure had a huge negative impact on revenue of the two principal competitors to Telmex: the MCI/Avantel and AT&T/Alestra joint ventures. Avantel stated that 70 percent of its revenues went to pay these interconnection fees (Friedland, 1998; *New York Times*, 1998). This fee schedule, which hurt both the MCI and AT&T joint ventures, was initiated by the government in 1996 after MCI's entry. According to MCI, the fee schedule was used to protect Telmex from the new competition that came in after the market was liberalized, resulting in MCI's curtailed investment in the market (*New York Times*, 1998). In the initial balloting under which consumers were permitted to switch long-distance carriers, Telmex retained a 60 to 80 percent market share, partly because the great majority of ballots went unreturned, leaving Telmex the default carrier (U.S. Department of State, 1998a,b). Table 1 presents a chronology of Mexican telecommunications privatization and market liberalization.

In the case of the Mexican privatization, despite the poor reputation of Telmex, write-offs associated with the peso devaluation, and the high cost of infrastructure investment necessary to modernize the network, it does appear that Telmex is slowly becoming a more dynamic and competitive organization. It also appears as if Southwestern Bell, in its partnership with Telmex, is garnering substantial first mover/incumbent benefits. Avantel and AT&T are having difficulty gaining market share in Mexico because of the relatively high interconnection fees described above. The nominal first mover and entrepreneurial entrant, MCI/Avantel, is suffering both from the power of the first mover/incumbent partnership and the brand and service reputation of the later mover, AT&T/Alestra.

In the case of the Telmex privatization in Mexico, one of the largest emerging market privat-

**TABLE 1**  
**Mexican Telecommunications Privatization/Market Liberalization Time Line**

Date	Development
December 1990	Government of Mexico sells 20 percent share in Telefonos de Mexico, the national operating company, to Grupo Carso, Southwestern Bell International, and France Telecom
December 1991	Telmex shares increase by 237 percent for the year
January 1994	NAFTA implementation begins; MCI and Banamex form Avantel
December 1994	Run on Mexican peso begins; AT&T and Grupo Alfa form Alestra
September 1995	Avantel receives official concession from the Mexican government
December 1995	Alestra receives official concession from the Mexican government
April 1996	Alestra merges operations with GTE, Bancomer, and Telefonica
August 1996	President Zedillo places ceremonial first telephone call over Avantel network, marking the opening to private line traffic
January 1997	Open competition for Mexican long distance begins
1997 through 1998	Ballots held throughout major Mexican cities, allowing customers to switch long-distance service; Telmex retains 60 to 80 percent market share

izations on record, the time delay between the initial privatization and market opening was approximately 6 years. The advantage accorded the first mover incumbent/international partnership, however, seemed to persist well beyond this time frame.

**Embratel privatization.** The first steps taken to liberalize the telecommunications sector in Brazil began in August 1995. From 1946 until 1995, the government held a monopoly in local, long-distance, and international telecommunications (Gullish, 1998). The telecommunications sector as a whole was inefficient and underdeveloped, with substantial backed-up demand and just eleven lines per one hundred inhabitants. Before privatization could occur, the Brazilian government needed to facilitate entry by foreign investors. As in many Latin American countries, laws prevented foreign ownership. A constitutional amendment in 1995 allowed the entrance of private domestic and foreign investors in the telecommunications sector (D'Almedia & Hirata, 1998). Although there was some liberalization in the period 1995 to 1997, it was only with the approval of the General Telecommunications Law in 1997 that conditions were set for privatization, including the establishment of the long-awaited regulatory entity, ANATEL. Prior to the sale of Telebras, the state telecommunications monopoly, the system was composed of a holding company and twenty-eight subsidiaries. Twenty-seven of those subsidiaries were responsible for local service and one, Embratel, operated intercity and international long-distance calls and provided forty other communications services, including satellite, high-speed data, and frame and

packet switch services (*Financial Times Intelligence Wire*, 1998).

After numerous delays, the sale of Telebras was completed on July 29, 1998. The long-distance portion of Telebras, Embratel, was purchased by MCI for \$2.28 billion through its fully owned Brazilian subsidiary, Startel (*Financial Times Intelligence Wire*, 1998). MCI received 51.79 percent of the voting shares of Embratel, which had the only nationwide and international network connected to businesses customers (*Financial Times Intelligence Wire*, 1998). Embratel will remain the sole long-distance carrier until further licenses are awarded, but that will not occur before December 31, 2001.

In Brazil MCI partnered with the incumbent carrier, Embratel, after participating aggressively in a bidding competition with Sprint to attain that position. On the day that MCI publicly announced its interest in acquiring Embratel, MCI's Vice President for Global Strategy and Development said that the American company would aggressively pursue purchase of Embratel unless the terms of the future sale of concessions of "mirror" companies were altered to subsequent investors' advantage. This suggests that MCI viewed direct, early investment in Embratel as more advantageous than waiting to enter the market as a mirror company. MCI clearly had concerns about the potential disadvantages of becoming a later entrant into the Brazilian market. Its priority in developing new products and services in the Latin American market precluded the company from settling for later entry.

Lieberman and Montgomery (1988) have suggested that early movers may be able to establish a reputation for quality that can be transferred to additional products through umbrella branding and other tactics. Published reports stating that the purchase of Embratel was partly based on MCI's decision to use Embratel "as a wedge to expand into local telephone service and the cellular markets" in Brazil reflect this potential competitive advantage (Mills, 1998).

Sprint's decision to bid until the very last moment with MCI for Embratel also may reflect first mover concerns. Sprint, like MCI, never had monopolistic advantages in its home U.S. market. For Sprint, a stake in the telecommunications market represented another fundamental step in expanding its reach in a global industry. Following the loss of Embratel to MCI, Sprint remained persistent in moving into the Brazilian long-distance market; proof of this was the company's decision to bid for the licenses for mirror long-distance companies (Barham, 1999). In February of 1999, Sprint took a 25 percent stake in the consortium that bought the first mirror license to compete against Embratel. Ironically, if the proposed MCI-Worldcom/Sprint merger is approved, the combined company likely will be forced to divest from this mirror company, because Brazilian law prevents a single firm from participation in both the primary and mirror long-distance service. Table 2 presents an illustration of the chronology of Bra-

zil's telecommunications privatization and market liberalization. In Brazil MCI partnered with the incumbent, Embratel, although the period in which MCI will profit from exclusive market positioning is unclear. It does appear as if MCI may have learned from its experience in Mexico, ensuring that it had a position within the Brazilian market prior to full market opening.

#### Regulations, Switching Costs, Time Benefits, and First Mover Characteristics

Regulations, switching costs, and other factors contribute to the first mover/incumbency advantage. Switching electric power, energy, water, or telecommunications carriers is, in theory, relatively unconstrained. But the way in which the balloting process was conducted in Mexico meant that Telmex was the beneficiary because the majority of households did not exercise a preference and, therefore, were automatically left with the default carrier—Telmex. (An alternative would have been to randomly or proportionately assign one of the carriers in order to fairly distribute service.)

First mover literature suggests that the first product on the market able to satisfy consumers' demand will gain a large portion of market share unless a "new" product provides some definitive advantage. Telephone users in Mexico expressed relative satisfaction with the in-

**TABLE 2**  
**Brazilian Telecommunications Privatization/Market Liberalization Time Line**

Date	Development
1990	Private companies allowed to provide paging, value-added, and private network services in Brazil
1991	Embratel's monopoly in data and Internet communications terminated
August 1995	Congress amends constitution to remove mandated monopoly in telecommunications
November 1995	President Cardoso announces plan for expanding telecommunications system, including the privatization of state-owned companies
May 1996	Full competition permitted in value-added, cellular, and satellite services
April 1997	Licenses sold to operate "mirror" cellular services
July 1997	Telecommunications reform passed, removing all legislative restrictions to privatization
October 1997	New independent regulator, Agencia Nacional de Telecomunicações, established
January 1998	Each of twenty-seven <i>state-level</i> telephone companies divided into two companies: a cellular company and a wireline telephone company
May 1998	Government gives potential buyers access to "data rooms," where information on individual companies to be privatized is available
July 29, 1998	Telebras system, which had been restructured into three wireline regional companies, eight cellular operators (Band A), and Embratel, sold to private investors for \$19 billion
August 1998	Announcement of terms for sale of concession licenses to operate mirror companies in competition with recently privatized ones
2002	Full competition expected in all areas of the Brazilian telecommunications market

cumbent carrier. MCI was the second overall mover in terms of all competitors but the first to compete against the incumbent. Nonetheless, it trailed AT&T in terms of market share, probably because AT&T's overall brand image obviated whatever earlier entry advantage the MCI consortium may have possessed (Torres, 1996). The first mover literature indicates that firms with high levels of product identification, brand imagery, and marketing and manufacturing prowess will be successful later movers—a view that seems to be supported when comparing the "earlier entrant" MCI/Avantel to the later one, AT&T/Alestra. That is, AT&T/Alestra, because of its name recognition and product identification, possessed advantages over MCI/Avantel, notwithstanding MCI's earlier market entry.

### Organizational Learning and Experience Curve Effects

The impact of organizational learning and experience curve effects requires further exploration and application. As described below, AES's strategy in Latin America demonstrates how firms may benefit from participation in early rounds of privatization and use local partner relationships to compete in subsequent rounds in the initial market, in other markets, and even across industries.

AES, one of the largest independent power companies in the world, has pursued a first mover strategy and, in so doing, has built a virtual electricity network in Latin America. In 1997 AES purchased a 13.75 percent stake in the Sao Paulo electric utility Light Servicos de Eletricidade (Light). In addition to the AES stake, Electricité de France and Houston Industries Energy each took 11.35 percent of the utility in the transaction. In 1998 AES, together with The Southern Company and The Opportunity Fund, a Brazilian investment fund, acquired 14.41 percent of Companhia Energetica de Minas Gerais (Cemig), an integrated electric utility serving the State of Minas Gerais in Brazil (*Latin Finance*, 1998). Light recently paid \$1.78 billion for a 28 percent equity stake of Sao Paulo power provider Eletropaulo Metropolitana, which includes control of 75 percent of the voting shares of the electricity distributor (*Energy Daily*, 1998). The purchase gives Light and, by extension, its three foreign partners responsibility for distributing electricity in Brazil's two largest metropol-

itan areas and for completing a value chain of electricity generation and distribution. This purchase would have been difficult had AES and Houston not had a relationship with the local power generator that served the distributor.

AES also has used its early experience in generation to pursue privatizations of electricity and gas distribution—a related, but different, industry segment. In June 1999 AES announced it was paying \$350 million to Houston Industries and an Argentine construction company, Techint, for 90 percent of the shares of the Buenos Aires Province power distributor EDELAP. That purchase extends AES's influence in the Buenos Aires province electricity market, where last year it paid \$330 million for controlling stakes in two neighboring distributors, EDEN and EDES. AES was also one of the bidders—via its Rio power distributor Light—in the July auction of Brazilian long-distance provider Embratel, but lost out in that bid to MCI (*Global Power Report*, 1999).

In the case of AES, first mover strategies appear to have allowed the firm to compete for subsequent privatization in Brazil and to benefit from positioning itself as a "local" firm in these deals. Moreover, the cumulative experience of competing for a series of privatizations appears to have allowed AES to apply knowledge from one market, region, and even industry to another. AES, however, also has experienced some of the costs of its entrepreneurial orientation and first mover strategy. Although AES posted record earnings of \$311 million for 1998, it indicated its intention to take a charge against 1999 earnings in the first quarter because of Brazil's currency devaluation and economic problems. It estimated the write-off would be \$105 million. AES also has said it will have to reduce stockholder equity by \$760 million because of the lower value of the Brazilian assets (*Global Power Report*, 1998), illustrating some of the risks associated with maintaining an entrepreneurial orientation as a first mover in a risky, volatile market.

### Proposed Methods

Although these illustrations provide some preliminary evidence supporting application of a first mover/collaborative approach to privatization, more sophisticated methods must be developed. One particular challenge is how to isolate the impact of first mover or early entry position—and the benefits of collaboration in



conjunction with that pioneering advantage—from other market, industry, and firm-level factors. Privatization is a highly idiosyncratic phenomenon, and controlling for the range of variables necessary to isolate first mover and alliance influences will be difficult.

The privatization phenomenon presents substantial methodological challenges to determining first mover advantage. First, the population of privatization transactions and firms competing for concessions is relatively small. Further, as mentioned earlier, the "winners" in a competitive tender may purchase away the entirety of the first mover benefit, making it difficult to evaluate its value and the ability of that particular firm to deploy resources to exploit the first mover position fully. Finance theorists suggest that these winners might even overpay because high bidders consistently lose money, failing to account for the adverse selection problem inherent in winning the auction. The winner's curse is especially problematic in bidding for items of uncertain value, resulting in below normal or even negative average profits for bidders (Thaler, 1991). Although bidders may hold unbiased estimates of the auctioned item's value, this estimate can be overly optimistic, given that participants' bids are influenced by their estimates of value (Thaler, 1991). This phenomenon may confound the ability to separate the first mover benefits of a particular privatization transaction from the transaction itself.

In one recent effort to differentiate between first mover advantages and competitive benefits of firm-level attributes, researchers used data envelope analysis to determine whether the relationship between pioneering and market share is a result of researchers' inability to control for managerial skills (Murthi, Srinivasan, & Kalyanaram, 1996). To determine whether "efficient" firms have a greater pioneering advantage than inefficient firms, these researchers estimated a model with interaction terms between pioneering and efficiency variables. The interaction between manufacturing efficiency and order of entry was in the expected direction but not significant (Murthi et al., 1996). Hence, although pioneers possess superior managerial skills, the impact of pioneering alone on market share is itself quite significant (Murthi et al., 1996). These researchers also noted the difficulty of measuring subjective factors, such as managerial capability. They controlled for unob-

served firm-specific factors, including unmeasured managerial skills, as a way to minimize the variability in management skill that might be attributed mistakenly to pioneering advantage (Murthi et al., 1996).

In addition to the I/O and resource-based strategy routes, some first mover/pioneering advantage research has originated in the marketing literature (Cahill, 1995; Szymanski, Troy, & Bharadwaj, 1995). Hence, marketing research methods and techniques may be appropriate for testing the model. One potentially fruitful approach is the use of conjoint analysis to determine the relative importance of first mover positioning versus other firm-level or environmental conditions relevant to successful privatization strategies. Widely used in consumer marketing research, conjoint analysis, also known as trade-off analysis or assessment, allows respondents to assess and exchange ratings directly between attributes, thus permitting the researcher to identify and rank consumer values for various attributes (Green, Krieger, Agarwal, & Johnson, 1991; Green & Srinivasan, 1990). In the case of firm-level and transaction-specific characteristics of privatization, conjoint analysis may be used to reveal the latent importance assigned to early entry versus other contributors to competitive assessment, including other resources and industry factors.

Further research on firm-level response to privatization should be facilitated as the record of activity grows. Over the next several years, it has been estimated that an additional \$50 to \$70 billion will be spent in emerging market privatizations. As more countries and firms in more sectors are involved in privatization, the application of methods from strategic management, international business, and marketing should help to further inform what drives privatization strategies and competitive success.

#### CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS FOR FURTHER RESEARCH

In this article I have drawn from two established schools of strategic management—the I/O and resource-based schools—to examine the role of first mover and pioneering advantage effects on the success of new, foreign market entrants in response to privatization opportunities. The major contribution of this discussion is

the unique application and integration of first mover, order-of-entry, pioneering advantage, and collaborative strategy effects to the privatization phenomenon. Privatization presents a particularly powerful case supporting the competitive effects of first mover positioning. The theoretical development and case review suggest that first movers/incumbents possess a significant advantage over other pioneering firms, especially when market liberalization is delayed, first movers partner with the incumbent, and a complicit government provides incumbency protections. In these limited examples, however, the sequential order among those entering the markets *subsequent* to the initial investor is not a material factor in success. In other words, the initial entrant, partnered with the incumbent, reaps the bulk of first mover benefits while the second and third entrants vie for a very inferior position. Hence, the definition of first mover must be further refined under this circumstance to refer specifically to the first mover/incumbent partnership.

Another major contribution is the application of the time-benefit model to the common circumstance in which privatization is followed by liberalization or market opening (see Figures 1 and 2). Not only does this "lag" provide powerful benefits to the first mover/incumbent, but these benefits persist beyond the stated term of protection so that first movers establish a formidable dominance in the market that is difficult for later entrants to challenge. The opportunity to partner with a local firm or government agency appears to strengthen these relationships further and position first movers to participate in subsequent privatizations in the initial and other sectors and markets.

This discussion is limited in a number of respects. Many of the arguments offered here are relevant to the range of privatization phenomena, but I have intentionally delimited the subset of privatization under examination to competitively bid infrastructure privatizations. Although these constitute the bulk of privatizations in emerging markets over the last decade, there are other privatizations programs—for example, in financial services, for which the theories offered here might be less relevant. Further, I have introduced the notion of "liberalization lag" as an important intervening variable that strengthens the first mover pressure and benefits. Many but not all privatizations in infrastructure include this privatization-

market liberalization sequence. As in any conceptual/theoretical presentation, the ultimate value of the theory and application will be measured in future empirical testing. Although I have offered case examples and suggestions for methodological approaches to the research questions, it is only through subsequent empirical application that the value of the arguments will be tested. So far, the managerial implications are tentative, based primarily on ex post review of limited cases.

Further, I have intentionally excluded myriad other variables that could unilaterally influence successful privatization strategy—variables that might also interact with the constructs I have explored. As mentioned above, these include the range of market, industry, and firm-level characteristics that contribute to international corporate competitive position. Because of the idiosyncratic and stylized nature of privatization, it is hard to make generalizations at all, for conditions vary widely according to political, economic, cultural, and other circumstances. Of promise, however, is the growing record of "successful" privatizations and the apparent learning by government policy makers from experiences in other jurisdictions, as evidenced by Brazil's very sophisticated approach to privatization sequence, process, structure, and implementation in the Telebras privatization.

This discussion builds on prior research in I/O economics, the resource-based view of the firm, social network theory, foreign direct investment theory, internalization, international business strategy, and collaborative strategy and strategic alliances. The relevance to practitioners is potentially powerful: investors choosing between participation in early versus later rounds of privatization (i.e., the initial sale of the state monopoly versus subsequent entrants into a liberalized market) would be wise to consider the costs of missing out on the initial, and highly valuable, first mover position. Government policy makers could use this study and future empirical tests to structure privatization in a manner that does not shelter the incumbent so completely from competition, assuming the goal of these privatizations is to attain a more market-based, transparent pricing, and efficient postprivatization industry structure.

As noted above, in further research scholars should examine the relative contribution of entry order versus firm-level resources and competencies. Researchers also could explore the degree to which specific and relative re-

source capabilities and deficits of early entrants strengthen or weaken first mover advantages. The role of learning by firms participating in a series of privatizations also should be examined to uncover how firm strategies incorporate earlier experiences. Finally, first mover and pioneering advantage and alliance/learning motivations are undoubtedly affected by factors informed by other managerial theories and principles, such as transaction cost, agency, and the related problem of information asymmetries. Some of these theoretical approaches are examined in other articles in this special issue. Only through integration of a range of theoretical foundations can we fully explain the phenomenon of privatization and corporate strategic response and success, and the role of early entry status and collaborative strategies to that success.

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