

Guiyao Tang, Ji Li, Xinran Wang

Multimarket Contact and Firm Performance: The Moderating Effect of Confucian Culture

© Higher Education Press and Springer-Verlag 2011

Abstract This paper examines the effect of Confucian cultural value on the relationship between multimarket contact and two dimensions of firm performance, i.e., firms' innovation and profitability. It is hypothesized that firms with a high level of multimarket contact are more likely to show mutual forbearance towards their competitors, which in turn influences their innovative behavior and financial performance. Taking into account the possible moderating effects of Confucian cultural value, we also hypothesize that the effect of multimarket contact is more pronounced among firms from the Confucian culture. In other words, it is argued that firms from the Confucian culture are more likely to innovate and obtain better financial performance. Empirical tests were conducted after the hypotheses, and the findings support the arguments on multimarket contacts and mutual forbearance hypotheses. Through facilitating tacit collusion, multimarket contact does seem to help create superior economic performance.

Keywords multimarket contact, mutual forbearance, Confucian culture

Received March 15, 2010

Guiyao Tang (✉)

Department of Management, Hong Kong Baptist University, Hong Kong, China
E-mail: tangguiyao2010@gmail.com

Ji Li

Department of Management, Hong Kong Baptist University, Hong Kong, China
E-mail: jili@hkbu.edu.hk

Xinran Wang

School of Management, Lanzhou University, Lanzhou 730000, China
E-mail: wangxr08@lzu.cn

1 Introduction

The past decades have seen the emergence of a growing body of literature on multimarket contact, which can be defined as the degree to which a firm engages with other firms simultaneously in more than one distinct product and/or geographic market (Jayachandran, Gimeno and Varadarajan, 1999). This growing body of literature reflects the reality today that firms are competing not only in a single market, but also in multiple markets (Prince and Simon, 2009). Researchers today are interested in the issue how firms compete in multiple markets, and how firms' positioning in multiple markets should influence their competitive behavior and performance (Baum and Singh, 1994; Evans and Kessides, 1994; Feinberg, 1984; Gimeno and Woo, 1999; Porter, 1980). A considerable number of studies that examined this topic show that it has become an increasingly popular focus in different fields such as economics (e.g., Scott, 1982), marketing (e.g., Jayachandran et al., 1999), business strategy (e.g., Fuentelsaz and Gomez, 2006; Haveman and Nonnemaker, 2000; Korn and Baum, 1999), and international business (e.g., Yu and Cannella, 2007).

Prior studies focusing on the consequences of multimarket contact confirm the importance of this research stream. For example, studies in the extant literature have related multimarket contact to market entry and exit rates (Baum and Korn, 1996, 1999), firms' entry strategies (Jayachandran, Gimeno and Varadarajan, 1999), firm incentives to engage in R&D (Vonortas, 2000), prices (Evans and Kessides, 1994; Jans and Rosenbaum, 1996), and service quality (Prince and Simon, 2009). These consequences of multimarket contact have been studied from either a theoretical or empirical perspective. Data collected in several industries such as airlines, insurance companies, automobile manufacturers, and banks provide empirical support for a link between multimarket contact and firm performance (e.g., Haveman and Nonnemaker, 2000; Greve, 2008; Fuentelsaz and Gomez, 2006; Yu and Cannella, 2007).

Multimarket contact may influence firms' behavior in innovation. Although innovation is also an important dimension of firms' performance, it has received insufficient attention from the researchers of multimarket contact. It is arguable that multimarket competition or contact is regarded as a driver for firms to improve their innovation (Davis and Meyer, 2004). In this paper, linking these two areas to each other, we examine the relationship between multimarket contact and innovation. Drawing on mutual forbearance arguments, we hypothesize that a firm's degree of innovation increases as its multimarket contact with rivals in a particular market increase. By testing this argument empirically, we are making a unique contribution to the literature of multimarket contact by extending the mutual forbearance hypothesis to innovation.

In this paper, we also examine the effect of multimarket contact on financial

performance using measures such as profitability. By testing this effect in an emerging market, we are also making contribution to the literature, which consists of mainly studies conducted in the Western developed countries.

Finally, we also test the moderating effect of cultural value on the relationship. Specifically, we examine the effects of Confucian cultural value on the relationship that we have discussed above. Researchers of business strategy have already suggested that the relationship between multimarket contact and firm performance depends on the existence of a variety of contextual conditions such as reciprocal dominance (Ma, 1998; Oster, 1990), market overlap (Chen, 1996) and culture (Li, Lam and Qian, 2001). Based on these studies, our current study investigates a new contextual factor—Confucian cultural value—and thereby adds to the understanding of the relationship between multimarket contact and firm performance.

In summary, this paper has three purposes: (1) to examine the main effect of multimarket contact on innovation; (2) to further examine the main effect of multimarket contact on firms' financial performance; and (3) to investigate the moderating effect of Confucian cultural value on the relationships above, i.e., the relationships described in (1) and (2).

2 Literature Review and Hypotheses Development

2.1 Multimarket Contact and Firm Performance

Central to the concept of multimarket contact is the competition with which a firm is “meeting” another firm in a particular market. Such a meeting should influence the firms' competitive behavior toward each other. Many studies have examined the types of behavior that result from multimarket contact. For example, Gimeno and Woo (1999) reported that the presence of multipoint competition resulted in competitive de-escalation, supporting the mutual forbearance thesis. Baum and Korn (1996) surmised that multipoint competition resulted in greater industry stability and competitor predictability, both of which might have positive effects on firm performance. Finally, Young et al. (2000) reported that multimarket competition could reduce the number of competitive interactions between firms.

In this paper, we are interested in the relationship between multimarket contact and firm performance. We are also interested in the link between innovation and profitability among firms in a fast-growing emerging economy. A review of early studies indicates inconsistent findings which concerns the economics literature that examines the relationship between multimarket contact and financial performance. Some studies found no evidence supporting the relationship (Alexander, 1985; Heggstad and Rhoades, 1978; Mester, 1987; Scott, 1982;

Golden and Ma, 2003), while others obtained data supporting the relationship. For instance, recent studies on this relationship were conducted in airline companies (Singhal, 1996) and manufacturing firms (Hughes and Oughton, 1993), and they found evidence supporting a positive relationship among the variables.

According to the mutual forbearance hypothesis, when firms meet in similar markets, their actions will be influenced by each other. For instance, they should be unable to increase or decrease prices without being concerned about others' reactions. Those that do so will face retaliation from competitors that will harm their own interests. Firms must therefore weigh the potential gains of aggressive behavior against the losses they may suffer due to competitive retaliation (Edwards 1955; Gimeno, 1999). With increasing overlaps in the markets in which they operate, firms go through a more careful process of consideration before making any aggressive moves against competitors that are active in more markets and therefore have a greater range of avenues through which to retaliate. According to Porter (1980), the intensity of the rivalry experienced by a focal firm is determined by the firm's competitive interaction with its rivals. Accordingly, firms that increase their multimarket contact with competitors seldom raise the intensity of their competitive behavior and instead show forbearance towards others (Baum and Korn, 1996, 1999; Gimeno, 1999). The mutual forbearance that develops among such firms can lead to increased returns (Baum and Korn, 1996; Gimeno and Woo, 1996).

In addition, from the resource dependence perspective, two firms that have an increasing degree of multimarket contact with each other are more likely to depend upon each other (Jayachandran, Gimeno and Varadarajan, 1999) as they can share both tangible and intangible resources. They are less likely to take aggressive action to compete in the market and instead choose to cooperate with their rivals to dampen the competitive intensity of the market. Therefore, firms that depend on each other to an increasing extent are less likely to engage in intensive competition and are more likely to choose to cooperate with each other. To some extent, the level of multimarket contact reflects the potential firms have to compete with each other, which can have an influence on firms' financial performance. Understanding the relationship between multimarket contact and financial performance is therefore of critical importance. This can be illustrated by the case of Changhong, an air conditioner company. In 2002, competition in the electronic home products market was particularly fierce. Changhong had many competitors in different markets and this had a great impact on its competitive behavior. As the number of competitors Changhong had in different markets increased, it switched its competitive model from a low-price strategy to a strategy of cooperation with its competitors. This new strategy has greatly improved the firm's returns. In view of the above arguments, we hypothesize as

follows:

H1 Firm's financial performance is positively related to the degree of multimarket contact.

While much research provides strong evidence for the mutual forbearance hypothesis, no prior study considers whether mutual forbearance may extend to the realm of innovation. Firm innovation can be defined as the process of applying new knowledge and other information to create commercially viable products and services (Walikangas and Gibbert, 2005). According to this definition, if a firm sells the same products as other firms, then the product should not be considered an innovation. However, if a firm sells a new product that other firms in the same industry have never sold, then the product can be considered an innovation.

When firms meet in multiple markets, innovation may be employed as a competitive strategy to avoid further competition among firms. The effects of competition on innovation have been the subject of prior study (Davis and Meyer, 2004). For instance, Baker (2001) argued that competition should force the firms to increase their activities of innovation. There are also other theoretical and empirical studies examining the relationship between competition and innovation (Boone, 2000; Merges and Nelson, 1994; Roberts, 1999). Competitive environments place pressure on firms to be the first to release new products on the market (Davis and Meyer, 2004). Based on the definition of multimarket contact, the higher the number of firms that offer similar products in multiple markets, the higher the level of multimarket contact. On the other hand, when the level of multimarket contact increases, competition will become fiercer. Under such a situation, innovation may be an appropriate strategy to avoid further multimarket contact and thus lessen the degree of competition. The higher the level of multimarket contact, the higher the possibility of innovation. We therefore predict as follows:

H2 Firm's innovation is positively related to the degree of multimarket contact.

2.2 The Moderating Effect of Confucian Culture

Although the foregoing discussion highlights the significant relationship between multimarket contact and firm performance, this relationship can be understood better when a cultural factor—Confucianism—is taken into account.

Because of the strength of China's emerging economy, over the past several decades, many business leaders have assumed that Confucianism is representative of Eastern Asia as a whole (Li and Putterill, 2007). Here, the introduction of Confucianism as a factor influencing firm behavior is of great

interest, as Confucianism now heavily influences firms' management style and practices in East Asian societies (Fan, 1995). Further investigation of this moderator is of critical importance in gaining a better understanding of the multimarket contact-firm performance linkage.

A large number of studies on the influence of home culture on firm performance have already been carried out. These studies show, for instance, that home culture has a great impact on firm performance (Adler, 1986) and can influence managers' decision-making (Puffer, 1993a; House, Hanges et al., 1999). However, to the best of our knowledge, no one has examined its effect on the relationships studied in our current study. This study attempts to fill this research gap.

First, it should be pointed out that cultural value itself can be regarded as part of a firm's resources and leads to different types of firm behaviors or performances (Li, Lam and Qian, 2001). Firms from a Confucian culture may behave very differently from those that do not have such cultural roots. Before investigating the influence of Confucianism in detail, we briefly discuss its specific characteristics.

Confucianism has developed over many generations and has a deep practical influence on the strategies and behaviors of Chinese firms. The key features of Confucianism can be regarded as the elements of the Chinese world-view: The primary concern of human existence focuses on the "way of man" (*rendao*), which emphasizes loving kindness (*ren*), righteousness (*yi*), propriety (*li*), wisdom (*zhi*), and trustworthiness (*xin*) (Fan, 2010; Daniel, 2008). In practice, the aforementioned Confucian ethics are seen as significant factors in the five cardinal hierarchical relationships (*wulun*: those between sovereign and subject, father and son, elder brother and younger brother, husband and wife, and friend and friend) (Fan, 2010; Daniel, 2008). The objective of Confucianism is to create an orderly society by regulating the relationships within the family, the basic unit of society. Below, we discuss the effects of Confucianism further by focusing on its effects on firms' strategies and behaviors.

Conformity and collectivism. Conformity is a basic Chinese cultural value derived from the Confucian concepts of *li* and *ren*. The notion of *li* refers to the rules of propriety that regulate behavior in the "five cardinal relations" (*wulun*) (Daniel, 2008). *Li* and *ren* also form the bases of collectivism (Daniel, 2008). In a collectivist society, everyone looks after the interests of group members; in return, the in-group gives protection if needed (Selmer, 1997).

The foregoing discussion suggests that firms from the Confucian culture will show more conformity toward others. For example, when their competitors adopt an aggressive strategy such as entering a new market or changing prices, they normally simply accept the fact rather than retaliate. With a sense of collectivism, they place much emphasis on interdependence. They believe that they are

members of a group within which every firm must consider the interests of others (Selmer, 1997). Correspondingly, every action they take is designed to avoid hurting others' interests and to lower the intensity of their rivalry.

Harmony and face. Confucian philosophy emphasizes harmony, suppresses overt conflict, and inhibits confrontation. People from a Confucian culture, who are often stereotyped as being in harmony with other people and the environment (Li, Lam and Qian, 2001), display absolute loyalty and obedience to authority and fulfill their obligations within hierarchical relationships, thereby guaranteeing the order of collectivity (Selmer, 1997). Everyone in such a society is required to adapt to the collective group, to strive for moderation, to control their emotions, and to avoid competition and conflict (Selmer, 1997). Firms from such a culture can therefore be greatly influenced by such a sense of harmony. Accordingly, when they do business, they want to create and maintain a harmonious atmosphere that gives each other comfort and happiness instead of creating fierce competition (Selmer, 1997).

"Face" is another salient ingredient of the Confucian culture. In a collectivist culture, loss of face can be as painful as physical abuse (Daniel, 2008). To avoid such loss of face, the maintenance of overt harmony in personal relationships is highly valued. In addition, the Confucian tradition has long upheld the concept of moderation, or *zhongyong*, which is also intended to prevent people from putting others down and making them lose face (Daniel, 2008). Taking action that harms others' face will destroy harmony, a very important value in Confucianism (Li, Lam and Qian, 2001).

In the same way, such concern with others' face may also affect the behavior and performance of firms. For example, firms from the Confucian culture will take great care to consider other firms' feelings when they plan to take action. Therefore, to avoid destroying harmony, they seldom take aggressive action. In most cases, they try to cooperate with their competitors. Specifically, when a firm from the Confucian culture has an increasing level of multimarket contact with its competitors, it is less likely to take action to defeat them and will implicitly avoid taking steps likely to provoke intense competition. For example, a firm may choose to develop new products that are different from those it has previously sold to reduce the level of multimarket contact it has with its competitors.

In comparison with firms from the Confucian culture, firms from non-Confucian cultures are more likely to initiate aggressive action that involves pursuing a competitive strategy in areas such as price or advertising because they are more concerned with how much profit they make than they are with considering the harm done to others. In view of the above logic, we make the following predictions:

H3 Confucian cultural value can moderate the positive relationship between

multimarket contact and financial performance such that the relationship will be stronger for those from the Confucian culture than for those from a non-Confucian culture.

H4 Confucian cultural value can moderate the positive relationship between multimarket contact and innovation such that the relationship will be stronger for those from the Confucian culture than for those from a non-Confucian culture.

Fig. 1 is a conceptual model of this paper.

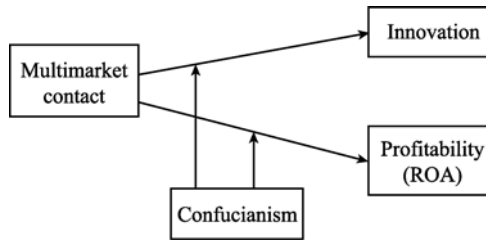


Fig. 1 Conceptual Model

3 Methods

3.1 Setting, Sample, and Data

To test the hypotheses proposed above, we collected data from firms competing in China's insurance industry. The data consist of 576 observations from 2002 to 2007. The firms represented in the sample include wholly owned firms and joint ventures. If an East Asian country owns more than 50% of a firm, we consider this firm to be from a Confucian country. Firms for which the majority of ownership rights are held by other countries are considered to be from non-Confucian countries.

The main reason for selecting this sample is that this study focuses on the effects of multimarket contact on firm behavior and performance, and insurance firms in China provide a sufficient number of observations. In addition, the increasing number of foreign insurance firms entering the Chinese market in recent years allows for the effect of Confucian culture to be tested, as noted above. To provide a better understanding of the characteristics of our sample, we provide a brief review of China's insurance industry as follows.

Historically, there was only one state-owned insurance firm—the People's Insurance Company of China—before China launched its program of economic reform in 1979. In 1986, another Chinese insurance firm—the Xinjiang Corps Insurance Company—was established, thereby introducing a low level of competition to the industry. An increasing number of Chinese insurance firms were gradually established.

At the same time, overseas insurance firms also entered the Chinese market. For instance, the first foreign insurer, AIA, began operating in Shanghai in 1992. The Tokyo Marine and Fire Insurance Company, a Japanese firm, also entered China in 1994. Since China joined the World Trade Organization (WTO) and completely opened up its insurance market in 2004, almost all major insurance firms throughout the world have established themselves in this fast-growing market.

The data of our sample firms were taken from multiple sources: 1) firm Web sites and six other independent Web sites that focus on the activities of and data on insurance firms in China; 2) the *Yearbook of China's Insurance Industry*, an annual publication issued by the Insurance Association of China that records information on all domestic and overseas insurance firms operating in the country; and 3) the *Report on the Development of China's Insurance Industry*, which is compiled and published annually by the International Insurance Research Institution of Nankai University in China. Each firm provides information about itself for the yearbook and the report. An independent editorial board consisting of representatives from all of the firms and officials from China's Statistical Bureau is responsible for the validity and credibility of the data.

As indicated in our hypotheses, we focus on the behavior of given firms. Our dataset contains more than 976 observations (years). These firms actually represent the entire population of insurance firms in China during the sample period.

3.2 Independent Variables

The independent variable tested in this study is *multimarket contact* for a given firm. To measure this variable, we adopt the approach developed by Fuentelsaz and Gomez (2006). *Multi-market contact* is the sum of the firm's contact across all of the product markets in which it has established a presence (Fuentelsaz and Gomez, 2006), i.e.,

$$\text{Multi-market contact}_{\text{intG-market}} = \sum_j \sum_m I_{jnt} \times (I_{imt} \times I_{jmt}) / \sum_j I_{jnt},$$

where n represents the set of markets in which firm i is not established, m is a market from M (the market domains of firm i in terms of market), and (I_{jmt}, I_{jnt}) is an indicator with the value of 1 if firm $i(j)$ is established in market $m(n)$ at time t . This measurement ranges between zero where firm i has no contact with others in market n and the number of markets M in which firm i is established (Fuentelsaz and Gomez, 2006).

3.3 Moderator

Confucian culture. If most of the big shareholders come from the Confucian countries (the Confucian countries are the East Asian countries such as China and Japan), we code this moderating variable as “1” and as “0” otherwise.

3.4 Dependent Variables

Firm innovation is measured by the average number of innovative products each firm developed in the 2002–2007 period. Three research assistants coded the data from the *Report on the Development of China’s Insurance Industry*. This report has a section about the new products that each firm has developed or introduced in a given year. If a new product was said to be the first in the Chinese market, then it was coded as an innovative product. The higher the number of innovative products for a given firm, the greater the firm’s innovation.

Profitability is another dependent variable and is measured by *return on assets (ROA)*.

3.5 Control Variables

First, we control for the effect of year because the relationship between the firm’s multimarket contact and performance may be moderated by the nature of the business environment in a given year (Li, Lam, Sun and Liu, 2008). Because the data employed in this study cover the period from 2002 to 2007, the time effects are controlled for by including year dummies in the regression (e.g., Chari and Chang, 2009; Hutzschenreuter and Voll, 2008; Madhavan and Iriyama, 2009). A dummy value of “1” is assigned to firms in 2003, “2” for firms in 2004, “3” for firms in 2005, “4” for firms in 2006, and “5” for firms in 2007.

Second, we control for firm age given its influence on firm performance. In normal circumstances, the older the firm, the more capable it is of innovating and the more likely it is to show a high level of financial performance.

The final factor we control for is product focus (life products or property products). We code this variable as one if a firm sold only life insurance products and as zero otherwise.

4 Data Analysis and Results

Table 1 presents the descriptive statistics for our sample. The means, standard deviations, and zero-order Pearson correlations for all the key variables are all reported in Table 1. Several interesting correlations can be observed among the variables. On the one hand, multimarket contact has significant and positive

correlations with innovation and profitability ($r = 0.308$, $p \leq 0.01$ and 0.077 , $p \leq 0.05$), which is consistent with our predictions. On the other hand, innovation has significant and positive correlations with profitability (0.086 , $p \leq 0.05$). All of these correlations are consistent with our hypotheses.

Table 1 Means, Standard Deviations, and Correlations

Variables	1	2	3	4	5	6
1. Life	1					
2. Firm age	-0.41**	1				
3. Multimarket Contact	-0.20**	0.58**	1			
4. Confucian culture	0.19**	-0.46**	-0.38**	1		
5. Innovation	0.01	0.23**	0.31**	-0.09**	1	
6. Profitability	0.41**	-0.07	0.08*	0.18**	0.09	1
Mean	0.63	11.12	14.41	0.49	2.11	0.28
S.D.	0.48	12.77	15.63	0.5	4.59	0.18

Note: ** denotes $p < 0.01$; * denotes $p < 0.05$ (two-tailed).

We perform hierarchical linear regressions (Aiken, West and Reno, 1991) to test the study hypotheses. To test H1, we first enter profitability as a dependent variable. We subsequently enter the control variables (Model 1), followed by the independent variable, multimarket contact (Model 2). The moderating variable of Confucian culture and the interaction between multimarket contact and Confucian culture are entered in Models 3 and 4, respectively. The interaction term accounts for 1 percent of the explained variance in innovation ($\Delta R^2 = 0.01$, $\Delta F = 20.21$, $p \leq 0.001$). Table 2 shows the results of the analyses, which support Hypotheses 1 and 3. In other words, multimarket contact has a significant and positive effect on financial performance and Confucian culture significantly influences the same relationship.

We use the same approach to test the relationship between multimarket contact and innovation. Table 3 shows the results of the analyses. The significant and positive standardized beta suggests a positive relationship between multimarket contact and innovation, which supports Hypotheses 2 and 4.

As shown from Table 2 & 3 that Confucian culture has a negative effect on firm performance. The negative effect of Confucian culture on firm performance means that Confucian culture firms often perform worse than those not from Confucian culture. However, the interaction between multimarket contact and Confucian cultural value has a positive effect on firm performance. Specifically, the positive effect of multimarket contact on performance is more likely to be observed among firms from Confucian culture.

Table 2 The Interactive Effects of MMC and Confucianism on Innovation

	Innovation			
	M1	M2	M3	M4
Control variables				
Yeardummy1	-0.03	-0.04	-0.04	-0.04
Yeardummy2	0.54***	0.55***	0.55***	0.56***
Yeardummy3	0.05	0.03	0.03	0.03
Yeardummy4	0.08*	0.06*	0.06*	0.06*
Yeardummy5	0.16***	0.13***	0.13***	0.14***
Life	0.11***	0.10***	0.10***	0.17***
Firm age	0.33***	0.15***	0.15***	0.23***
Independent variable				
Multimarket contact		0.30***	0.30***	0.14***
Moderator				
Confucianism			0.01	-0.14***
Interaction				
Multimarket contact * Confucianism				0.23***
R^2	0.32	0.38	0.38	0.40
ΔR^2	0.33	0.06	0.01	0.02
F	66.42***	74.26***	65.94***	65.17***
ΔF	66.42***	87.35***	35.73	36.35***

Note: *** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$ (two-tailed).

Table 3 The Interactive Effects of MMC and Confucianism on Profitability

	Profitability			
	M1	M2	M3	M4
Control variables				
Yeardummy1	0.09*	0.07*	0.08*	0.07*
Yeardummy2	-0.38***	-0.39***	-0.36***	-0.35***
Yeardummy3	-0.32***	-0.33***	-0.31***	-0.31***
Yeardummy4	-0.10*	-0.121***	-0.10*	-0.10*
Yeardummy5	-0.31***	-0.33***	-0.31***	-0.31***
Life	0.42***	0.40***	0.40***	0.44***
Firm age	0.10***	-0.01	-0.05	-0.01
Independent variable				
Multimarket contact		0.17***	0.14***	0.06***

(To be continued)

(Continued)

	Profitability			
	M1	M2	M3	M4
Moderator				
Confucianism			-0.13***	-0.21***
Interaction				
Multimarket contact × Confucianism				0.12***
R^2	0.40	0.41	0.43	0.43
ΔR^2	0.41	0.02	0.010	0.01
F	84.31***	79.32***	74.29***	68.56***
ΔF	84.31***	26.98***	20.21***	10.10***

Note: *** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$ (two-tailed).

The nature of the significant interaction is examined by plotting figures with values plus and minus one standard deviation from the means of multimarket contact, innovation, and profitability. Fig. 2 and Fig. 3 clearly illustrate the significant interactions. As shown in Fig. 2, the relationship between multimarket contact and innovation is stronger for firms from the Confucian culture than for those that are not from the Confucian culture. Specifically, the relationship is significantly positive among firms from the Confucian culture ($r = 0.52, p < 0.01$), whereas the relationship is not significant for firms that are not from the Confucian culture ($r = 0.06, n.s.$).

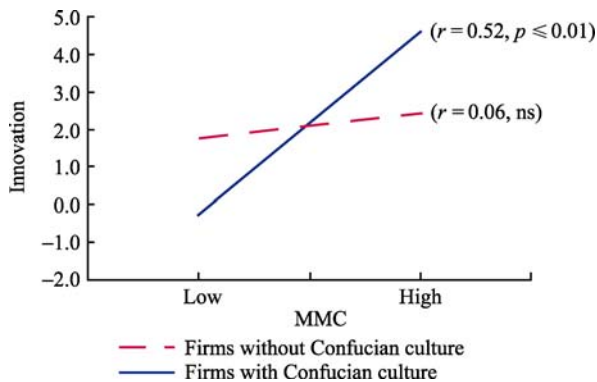


Fig. 2 Interactive Effect of MMC and Confucian Culture on Innovation

In addition, Fig. 3 indicates that the relationship between multimarket contact and profitability is stronger for firms from the Confucian culture. Specifically, the relationship is significantly positive for firms from the Confucian culture ($r = 0.29, p < 0.01$), whereas the relationship is not significant for firms that are not

from the Confucian culture ($r = 0.01$, n.s.).

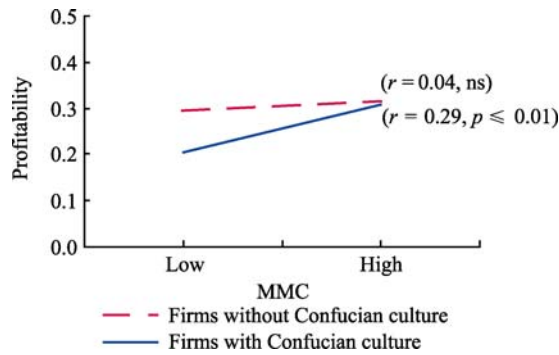


Fig. 3 Interactive Effect of MMC and Confucian Culture on Profitability

5 Conclusion and Limitation

5.1 Conclusion and Theoretical Contribution

This study examines the effects of multimarket contact on firm performance. The results show that multimarket contact has significant effects on two dimensions of firm performance, i.e., firm innovation and profitability. On the other hand, innovation also seems to have a direct influence on firm profitability.

In addition, consistent with prior research, the relationship between multimarket contact and firm performance is moderated by a contextual variable, i.e., Confucian cultural value. Specifically, the data in this study suggests that Confucian cultural value moderates the relationship between multimarket contact and the two dimensions of firm performance.

The findings of this study facilitate a greater understanding of the relationship between multimarket contact and firm performance. The majority of past studies on the consequences of multimarket contact have focused on market entry and exit rates (Baum and Korn, 1996, 1999), firms' entry strategies (Jayachandran, Gimeno and Varadarajan, 1999), firm incentives to engage in R&D (Vonortas, 2000), and prices and service quality (Evans and Kessides, 1994; Prince and Simon, 2009). Although such studies can help us to understand how multimarket contact influences firm performance, they fail to take into account the innovation that results from competition among firms in multiple markets. Based on the findings of this study, we argue that multimarket contact also has a significant effect on firm performance, an argument that is consistent with the mutual forbearance hypothesis and the theory of resource dependence (e.g., Pfeffer and Nowak, 1976).

Although this study tests the effects of multimarket contact and home culture

on firm performance in an emerging economy, the findings also help foster a better understanding of similar effects in other developed or developing countries. With the globalization of firm activities and operations, the issues explored in this paper should become increasingly significant in managerial research and practice in any major country or market. And the hypotheses that are developed and tested in this paper have important implications for multimarket contact research.

5.2 Limitations and Future Research

The present study is not without limitations. Several of them can be noted to help better inform future research. One limitation is that all data were collected from the same source, insurance firms in China. As China is at the emerging stage of its economic development, the insurance industry is also experiencing turbulent environmental changes in terms of governmental policies as well as market competition conditions. The relationships examined above may be influenced by some external factors. Secondly, although the secondary data in this study, which is provided by China's authority, is powerful for this specific study, there still exists reliability.

Accordingly, future replication can be made to test how the findings reported here correspond to the results of studies conducted in other countries. Also, researchers may find it useful and necessary to conduct a longer period of study on the relationship above. Although the current study covers 6 years' observations, it only reflects the tip of the iceberg. In addition, future research may include a survey to collect first-hand data to explore the above mentioned relationships, which may provide a more powerful analysis for this study. Lastly, there may be some other factors influencing the relationship between multimarket contact and firm performance. Therefore, it may be useful to explore some other interesting moderators.

References

- Adler, N. J. 1986. *International dimensions of organizational behavior*. Boston, MA: Kent Publishing.
- Alexander, D. L. 1985. An empirical test of the mutual forbearance hypothesis: The case of bank holding companies. *Southern Economic Journal*, 52: 122 – 140.
- Baker, J. B. 2001. Can antitrust keep up? *Brookings Review*, (winter): 15–19.
- Baum, J. A. C., & Singh, J. V. 1994. Organizational niches and the dynamics of organizational founding. *Organization Science*, 5(4): 483–501.
- Baum, J. A. C., & Korn, H. J. 1996. Competitive dynamics of inter firm rivalry. *Academy of Management Journal*, 39(2): 225–291.

- Baum, J. A. C., & Korn, H. J. 1999. Dynamics of dyadic competitive interaction. *Strategic Management Journal*, 20(3): 251–278.
- Boon, J. 2000. Competitive pressure: The effects on investments in product and process innovation. *RAND Journal of Economics*, 31(3): 549–569.
- Comanor, W. S. 1965. Research and technical change in the pharmaceutical industry. *Review of Economics and Statistics*, 47: 182–190.
- Chari, M. D. R., & Chang, K. Y. 2009. Determinants of the share of equity sought in cross-border acquisitions. *International Journal of Business Studies*, 40: 1277–1297.
- Chen, M. 1996. Competitor analysis and interfirm rivalry: Toward a theoretical integration. *Academy of Management Review*, 21: 100–134.
- Daniel, B. 2008. *China's new Confucianism: Politics and everyday life in a changing society*. Princeton, NJ: Princeton University Press.
- Davis, L. N., & Meyer, K. E. 2004. Subsidiary research and development, and the local environment. *International Business Review*, 13: 359–382.
- Evans, W., & Kessides, I. 1994. Living by the “golden rule”: Multimarket contact in the United States airline industry. *Quarterly Journal of Economics*, 109: 341–366.
- Fan, X. 1995. The Chinese cultural system: Implications for cross-cultural management. *SAM Advanced Management Journal*, 60 (1): 14–20.
- Feinberg, J. 1984. *Harm to others*. Oxford: Oxford University Press; relevant passage reprinted in J. M. Fischer (Ed.), *The metaphysics of death*: 171–190. Stanford, CA: Stanford University Press, 1993.
- Fuentelsaz, L., & Gomez, J. 2006. Multipoint competition, strategic similarity and entry into geographic markets. *Strategic Management Journal*, 27: 477–499.
- Golden, B. R., & Ma, H. 2003. Mutual forbearance: The role of intrafirm integration and rewards. *Academy of Management Review*, 28(3): 479–493.
- Jimeno, J. 1999. Reciprocal threats in multimarket rivalry: Staking out spheres of influence in the US airline industry. *Strategic Management Journal*, 20(2): 101–128.
- Jimeno, J., & Woo, C. 1999. Multimarket contact, economies of scope, and firm performance. *Academy of Management Journal*, 42: 239–259.
- Greve, H. R. 2008. A behavioral theory of firm growth. *Academy of Management Journal*, 51(3): 476–494.
- Haveman, H. A., & Noenmker, L. 2000. Competition in multiple geographic markets: The impact on growth and market entry. *Administrative Science Quarterly*, 45: 232–267.
- Heggstad, A. A., & Stephen, A. R. 1978. Multimarket interdependence and local market competition in banking. *The Review of Economic and Statistics*, 60: 523–532.
- House, R. J., Hanges, P. J., Ruiz-Quintanilla, S. A., Dorfman, P. W., Javidan, M., Dickson, M., Gupta, V., et al. 1999. Cultural influences on leadership an organization: Project GLOBE. In W. H. Mobley, M. J. Gessner, & V. Arnold (Eds.), *Advances in global leadership*: 171–233. Stanford, CT: JAI Press.
- Hughes, K., & Oughton, C. 1993. Diversification, multimarket contact and profitability. *Economica*, 60: 203–224.
- Hutzschenreuter, T., & Voll, J. C. 2008. Performance effects of “added cultural distance” in the path of international expansion: The case of German multinational enterprises. *International Journal of Business Studies*, 39: 53–70.
- Jans, I., & Rosenbaum, D. 1996. Multimarket contact and pricing: Evidence from the U.S. cement industry. *International Journal of Industrial Organization*, 15: 391–412.

- Jayachandran, S., Gimeno, J., & Varadarajan, P. R. 1999. Theory of multimarket competition: A synthesis and implications for marketing strategy. *Journal of Marketing*, 63: 49–66.
- Kay, N. M. 1979. *The innovating firm: A behavioral theory of corporate R&D*. New York: Martin's Press.
- Korn, H. J., & Baum, J. A. C. 1999. Chance, imitative, and strategic antecedents to multimarket contact. *Academy of Management Journal*, 42: 171–193.
- Li, X., & Putterill, M. 2007. Strategy implications of business culture differences between Japan and China. *Business Strategy Series*, 8(2): 148–154.
- Li, J., Lam, K., Sun, J. M., & Liu, X. Y. 2008. Strategic human resource management, institutionalization, and employment modes: An empirical study in China. *Strategic Management Journal*, 29(2): 337–342.
- Li, J., Lam, K., Karakowsky, L., & Qian, G. 2003. Firm resources and first movers advantages—A case of foreign direct investment in China. *International Business Review*, 12(5): 625–645.
- Li, J., Lam, K., & Qian, G. 2001. Does culture affect behavior and performance of firms: The case of joint venture in China. *Journal of International Business Studies*, 32(1): 115–131.
- Ma, H. 1998. Mutual forbearance in international business. *Journal of International Management*, 4: 129–147.
- Madhavan, R., & Iriyama, A. 2009. Understanding global flows of venture capital: Human networks as the “carrier wave” of globalization. *International Journal of Business Studies*, 40: 1241–1259.
- Merges, R. P., & Nelson, R. R. 1994. On limiting or encouraging rivalry in technical progress: The effect of patent scope decisions. *Journal of Economic Behavior and Organization*, 25: 1–24.
- Mester, L. J. 1987. A multiproduct cost study of savings and loans. *Journal of Finance*, 42: 423–445.
- Oster, S. M. 1990. *Modern competitive analysis*. New York: Oxford University Press.
- Pfeffer, J., & Nowak, P. 1976. Joint ventures and interorganizational interdependence. *Administrative Science Quarterly*, 21: 398–418.
- Porter, M. E. 1980. *Competitive strategy: Techniques for analysing industries*. New York: Free Press.
- Puffer, S. M. 1993. Three factors affecting reward allocations in the former USSR: An empirical study. *Research in Personnel and Human Resource Management*, (3): 279–298.
- Prince, J. T., & Simon, D. H. 2009. Has the internet accelerated the diffusion of new products? *Research Policy*, 38(8): 1269–1277.
- Roberts, P. W. 1999. Product innovation, product-market competition and persistent profitability in the US pharmaceutical industry. *Strategic Management Journal*, 20(7): 655–670.
- Scott, J. 1982. Multimarket contact and economic performance. *Review of Economics and Statistics*, 64: 368–375.
- Scott, J. 1991. Multimarket contact among diversified oligopolists. *International Journal of Industrial Organization*, 9: 225–238.
- Selmer, J. 1997. *Vikings and dragons: Swedish management in Southeast Asia*. Hong Kong: The David C. Lam Institute for East-West Studies.
- Singal, V. 1996. Airline mergers and competition: An integration of stock and product price effects. *Journal of Business*, 69: 233–268.

- Vonortas, N. S. 2000. Multimarket contact and inter-firm cooperation in R&D. *Journal of Evolutionary Economics*, 10(1-2): 243–271.
- Walikangas, L., & Gibbert, M. 2005. Boundary-setting strategies for escaping innovation traps. *MIT Sloan Management Review*, 46(3): 58–65.
- Young, G., Smith, K. G., Grimm, C. M., & Simon, D. 2000. Multimarket contact and resource dissimilarity: A competitive dynamics perspective. *Journal of Management*, 26(6): 1217–1236.
- Yu, T., & Cannella, A. A. 2007. Rivalry between multinational enterprises: An event history approach. *Academy of Management Journal*, 50(3): 663–684.