Mode Of International Entry: An Isomorphism Perspective

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The determination of entry-modes is examined using an institutional theory framework. Two sources of isomorphic pressures affect a strategic business unit's (SBU) entry-mode choice: (1) host country institutional environment, and (2) internal institutional environment (the parent organization). SBUs were hypothesized to adopt similar organizational forms, structures, policies, and practices, thus becoming isomorphic, based on felt pressures to conform to behavioral norms within the environments. The results indicated that SBUs using wholly-owned entry-modes demonstrated high levels of internal (parent) isomorphism; those using exporting, joint ventures, or licensing agreements demonstrated external isomorphism; and those using multiple or mixed entry-mode demonstrated low levels of isomorphic pressures.

In seeking to penetrate foreign markets, firms may choose from various entry-modes. Typical modes of entry include exporting, licensing, joint ventures, acquisitions, and green-field investments. Each mode involves different resource deployment patterns (Agarwal & Ramaswamy, 1991), levels of control and

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risk (Kim & Hwang, 1992), and political and cultural awareness (Dalli, 1995). Numerous studies indicate a firm's entry-mode choice impacts a firm's overseas business performance and survival (Anderson & Gatignon, 1986; Kim & Hwang, 1992; Davidson, 1982). Subsequently, the literature is replete with calls for managers to consider carefully the selection and implementation of entry strategies (Li, 1995).

While the performance implications of entry-mode are widely acknowledged, little is known about the underlying institutional factors impinging on entry-mode decisions. One reason is that prior investigations focused on identifying a comprehensive set of strategic variables and relationships that influence an entry-mode decision at its occurrence (Davidson, 1982; Anderson & Gatignon, 1986). The outcome of this research tended to be prescriptive, limited to suggesting the selection of an appropriate entry-mode under certain conditions at a given point in time. Rosenweig & Singh (1991) suggested that researchers incorporate institutional factors when examining commonalities across firms in entry-mode decisions. In their view, in a multinational enterprise (MNE), two conflicting sets of institutional factors impinge on entry-mode decisions. The first factor is adaptation to local markets and their unique characteristics; the second is vested in isomorphism prevalent between the multiple subsidiaries of the MNE. Isomorphism, the primary driver of structural change in institutional theory, refers to the "constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (DiMaggio & Powell, 1983: 149). To date, however, no empirical studies confirm the nature of a relationship between institutional factors, in particular isomorphism, and firms' entry-modes.

We investigated the relative impact of well-established external (host country) factors, such as investment conditions and transaction-specific factors, as well as less understood internal isomorphic pressures, such as those placed on a SBU by its parent organization. We then tested the relationship between these factors and entry-mode decisions, ranging from wholly-owned subsidiaries to exporting and licensing.

We begin with an overview of the existing literature and highlight some limitations. We then present the institutional perspective, followed by hypotheses about the entry-mode decision derived from the institutional perspective. Finally, we describe the empirical tests, present the results and discuss their utility for explaining entry decisions among our sample firms.

**Literature Review**

**Entry-mode Choice**

Prior explanations for entry-mode choice draw extensively from transaction-cost economics (Anderson & Gatignon, 1986; Erramilli & Rao, 1993), resource-based theory (Chang, 1995), and eclectic theory (Agarwal & Ramaswamy, 1991; Kim, Hwang & Burger, 1989; Kim & Hwang, 1992). Explanations based on transaction-costs stress the preeminent role of control that each expansion type of mode affords an entrant (Anderson & Gatignon, 1986). Resource-based explanations suggest that resource availability and utilization figure in choices among modes of entry if there are cost distinctions (Chang, 1995). Eclectic discussions posit a wide variety of factors, such as firm size (Caves & Mehra, 1986), multinational experience