

Institutional Strategy And Multinationals' Entry Mode Choice

Chenwei Yang

Instructor, Department of Management Information System,

Fooyin University, Taiwan

PhD Student ,Graduate School of Management, I-Shou University, Taiwan

wei0408@seed.net.tw

Abstract

The ability of Multinational Corporations (MNCs) using different entry mode choices to strategically influence their environments has become an important concern in international business research. We adopt the concept of institutional strategy to explain patterns of MNCs' action that are directed toward managing the various institutional pressures. The institutional strategies vary with different multinational entry mode choices used by MNCs.

This study proposes that the MNCs using different entry mode choice adopt different institutional strategies to respond two primary institutional pressures---internal (parent) and external (host country). In order to provide a constructive alternative explanation for multinationals' entry mode choice in institutional perspectives, further empirical research and literature review is required.

Key terms: Multinational Corporations (MNCs), institutional strategies, entry mode choice, institutional theory

1. Introduction

Early studies in international business field have identified many determinants that influence the choice of an entry mode for a selected target market. The explanations of determinants draw from transaction-cost theory(Anderson & Gatignon, 1986; Erramilli & Rao, 1993), eclectic theory (Agarwal & Ramaswamy, 1991; Kim, Hwang & Burger, 1989), resource-based view(Chang, 1995) and Dunning's integrating perspective(1977, 1980, 1988). For all of these entry mode choices involve different level of resource commitments, MNC's initial choices of a specific mode are difficult to change without substantial loss of time and money(Root, 1987)Entry mode selection is a very important strategic decision(Agarwal & Ramaswamy, 1991). However, after MNC's selecting the entry mode choice, MNC must face two sources of isomorphic pressures: (1) host country institutional environment and (2) internal institutional environment or the parent organization(Davis, Desai and Francis, 2000) This paper focus on how MNC with different entry mode choices cope with these institutional pressure.

The ability of Multinational Corporations (MNCs) using different entry mode choices to strategically influence their environments has become an important concern in international business research. We adopt the concept of institutional strategy to explain patterns of MNCs' action that are directed toward managing the various institutional pressures(Lawrence, 1999). In order to gain the legitimacy in organizational field, membership rules and standards of practice remain acceptable response to institutional pressure. Institutional structures are conceptualized as pragmatically rules of membership and standards of practices. Organizations depend on these institutionalized rules and standards as guides to legitimate action within their organizational field(Hinings & Greenwood, 1988). The institutional strategies vary with different multinational entry mode choices used by MNCs.

2. International Entry Mode Choice

Of theoretical interest, there are four distinct international entry modes of wholly owned subsidiaries ,licensing, joint venturing and exporting. We simplify the entry mode choices because much of the international business literature emphasizes on these three distinct modes and suggests that each of these entry modes is consistent with resource commitment (Vernon, 1983) and a different level of control (Caves, 1982; Davis, Desai & Francis, 2000).Control indicate authority over operational and strategic decision making; resource commitment emphasize dedicated assets that cannot be redistributed to alternative uses without loss of value. Kim & Hwang(1991) suggest that wholly owned subsidiaries can be described as relatively high level of resource commitment and control, the opposite should be exporting. With respect to licensing agreement and joint venture, although the levels of resource commitment and control vary with the nature of the ownership split, their extent can be said to lie between that of wholly owned subsidiaries and exporting.

Prior clarifications for entry mode choice most draw from eclectic theory(Kim & Hwang, 1992), resource-based view(Chang, 1995), and transaction-cost economics(Erramili & Rao, 1993). Because so many factors may influence entry decision, the existing

frameworks are vague or contradictory for the patterns of entry mode choice. Our purpose is not to contest previous models, but to explore whether institutional relationships and strategies provides a constructive alternative explanation for multinationals' entry mode choice.

3. Institutional Theory and Institutional Strategy

3.1 Institutional Theory

Different from the traditional task environment perspective that focus on the role of competition, resource and markets, institutional theory emphasizes on the state and professional associations in an organization's institutional environment and their insightful influence in shaping the legitimacy and performance of an organization (DiMaggio and Powell, 1983; Scott, 1995; Zucker, 1987). Institutional theorist presume that organizations search for social approval and legitimacy (DiMaggio, 1988); the building of institutional relations assists the organization to mobilize cultural support for its activities and goals and to reveal its social validity and conformity with regulations, institutional rules and norms (Myer and Rowan, 1977).

Earlier institutional theorists highlighted the attribute of beliefs, rules, and myths as shared social reality and processes (Oliver, 1991). Prevailing theorists suggest that various institutions exert pressures on organization and result in appropriate and fundamentally meaningful organizational behavior (Zucker, 1983). Institutional theory could explicate the influence these pressures exert on organizations (Myer, Scott & Starng, 1987) and strategic behavior (Oliver, 1991). However, particular institutional context could determine an organization's appropriate behavior or activity (Davis, Desai, & Francis, 2000).

Institutional theory provides a rich, complex view of organizations. It emphasizes those normative pressures, sometimes coming from external sources, other times coming from within the organization itself, influence organizations. Under some conditions, these pressures lead organization to be guided by legitimacy. Adoption of legitimacy, leading to isomorphism with the institutional environment, increases the survival chances (Zucker, 1987).

Traditionally, institution theory focuses on the external institutions in influencing organizational behavior. The institutions contain public opinion, interest group, professions, regulatory structures, agencies and law (Oliver, 1991). Now the meaning of institutions has been extended to other business units in an organizational network (Kostova & Zaheer, 1999). According to this perspective, the parent organization's network will exert institutional pressure to its business units. The isomorphism mechanism will force business subunits to conform to parent organization's norms. However, the external and internal sources of pressure influence significantly on the entry-mode choice of MNC.

Isomorphic pressure institutionalizes MNC's structure and behavior. MNC's subsidiaries face simultaneous pressures to resemble other sub-units of the parent MNC, and to adapt to the institutional demands of host countries (Rosenzweig & Singh, 1991).

3.2 Institutional Strategy

According to Lawrence's perspective (1999), institutional strategy developed from institutional theory means patterns of action that are concerned with managing the institutional structures within which firms compete for resources. It focuses on organizations' strategic responses to institutional pressures and the active role of organizations concerned with constructing new institutions, and transforming existing institution to inspect institutional structure.

The conceptualization of institutional structures depends on an understanding of reality as socially constructed and enacted in discussion (DiMaggio & Powell, 1991). However, the key attribute of institutions is their pragmatic orientation: social actors draw on institutionalized knowledge as a resource in their routine life. At organizational level, organizations are driven to fit in the practices and procedures defined by current rationalized concepts of institutionalized in society and organizational work (Meyer and Rowan, 1977).

The concept of organizational fields plays a role of domain of meaning—fields of activity within which social structure and common languages develop. It also consists of sets of subject positions bound together by standards and institutionalized rules (DiMaggio & Powell, 1983; Bourdieu, 1993). To maintain legitimacy in an organizational field, an actor must conform to these institutionalized rules. Lawrence (1999) suggested that these practical rules help actors to respond two question: "Where can I go,?" and "What can I do?". The first question relates to institutionalized boundaries issues, which limit the organizations' form of life into rules of memberships. The boundaries include culture, race, gender, profession or relationships. The second question asks what the coping skill within an organizational field. Standard of practice give norms, guidelines and legal prescriptions relating to how practices are to be carried out in some institutional setting (Clegg, 1989).

The importance of membership rules and practice standards in an organizational field doesn't imply that organizational action is determined by the rule. Rather, the basic relationship between social rules and action implies the possibility of change, as well as reproduction. Continual reproduction in social action determines the legitimacy of rules and practice. It implies that institutional rules are not fixed, but rather transformed by motivated actors (Clegg, 1989; Lawrence, 1999).

Institutional strategies are patterns of organizational action concerned with the transformation and formation of institution, the rules and standards that control those structures. Although all organizational strategy occurs within an institutional context, institutional strategy is distinguished by its orientation to that context. These

strategies emphasize more on transforming institutional standards and rules rather than gaining competitive advantage. Institutional strategies focus on managing existing institutional structures to establish a strategically favorable set of conditions. We adopt three types of institutional strategy: (1) membership strategies and (2) standardization strategies (Lawrence, 1999). (3) Hybrid strategies of membership and standardization; in this paper.

In response to normative pressures, which stem from professionalization, membership strategies rest on the power implicit in membership. Membership strategies include the definition of rules of membership and their meaning for an institutional community. An organization's capability to influence the membership rules of an organizational field is positively related to its control of institutional information and the degree to which it is perceived as a leading organization in the field (Lawrence, 1999). However, we proposed highly control entry mode of MNC will pursuit membership strategy to response normative pressure.

In response to coercive or mimetic pressures (DiMaggio & Powell, 1983), standardization strategies force other actors to conform to institutional standards. Standardization strategies emphasize the establishment of legal, technical or informal standards to define normality of a product, service or practice through regulation (Selznick, 1957; Montagna, 1990). An organization's incapability to influence the standards of practice in an organizational field is negatively related to its technical, legal, political and marketing expertise and the degree to which it is perceived as a leading organization in the field (Lawrence, 1999). However, we proposed low control entry mode of MNC will pursuit standardization strategy to response coercive or mimetic pressure.

Figure 1 "Conceptual Framework" summarizes the relationships proposed here between MNCs' entry mode choices and institutional strategies.

4. Proposition

MNC's business units using wholly owned modes of entry would have higher MNC's parent isomorphism pressure (Davis, Desai & Francis, 2000). To response this pressure, we propose that MNCs need some membership strategies. These strategies involve the definition of rules of membership and their meaning for an institutional context.

An organization's ability to affect the membership rules of an organizational field is positively associated with its control of institutional information and the degree to which it is perceived as a leading organization in the field (Lawrence, 1999). The relationships between MNCs' entry mode choice, parent isomorphism pressure and membership strategies lead to proposition one:

Proposition 1: MNCs using high level of control entry mode (e.g. wholly owned modes of entry) will favor

membership strategies than MNCs using other modes of entry.

MNC's business units using exporting modes of entry would have higher MNC's local market adaptation pressure (Davis, Desai & Francis, 2000). To response this pressure, we propose that MNCs need some standardization strategies. These strategies are concerned with the establishment of legal, market or technical standards that define the normal process involved in the production of some good or service (Lawrence, 1999). The relationships between MNCs' entry mode choices, local adaptation pressure and standardization strategies lead to proposition two:

Proposition 2: MNCs using low level of control entry mode (e.g. exporting modes of entry) will favor standardization strategies than MNCs using other modes of entry.

MNC's business units using multiple modes of entry would have similar pressure of both parent isomorphism and local market adaptation level (Davis, Desai & Francis, 2000). To response these pressures, we propose that MNCs may achieve a balance to adopt both institutional strategies. That suggest proposition three:

Proposition 3: MNCs using median level of control entry mode (e.g. multiple modes of entry) will favor similar level of both membership strategies and standardization strategies.

5. Discussion

Prior research in international business field have proposed many factors that affect the choice of an entry mode for a selected target market. This paper provide a way to explain how MNC with different entry mode choices to deal with institutional pressures. This study proposes that the MNCs using different entry mode choice adopt different institutional strategies to respond two primary institutional pressures---internal (parent) and external (host country). The concept of institutional strategy is intended to move the discussion of institutional setting beyond notions of environmental determinism toward more examinations of the complex dynamics of institution and field. The proposition in this paper deduce how MNC with different entry mode choices cope with these institutional pressure.

For practice implication, we propose a way to manager of MNC as they attempt to understand the strategies that MNC with various entry modes should response to the institutional pressure. In order to provide a constructive alternative explanation for multinationals' entry mode choice in institutional perspectives, further empirical research and literature review is required.

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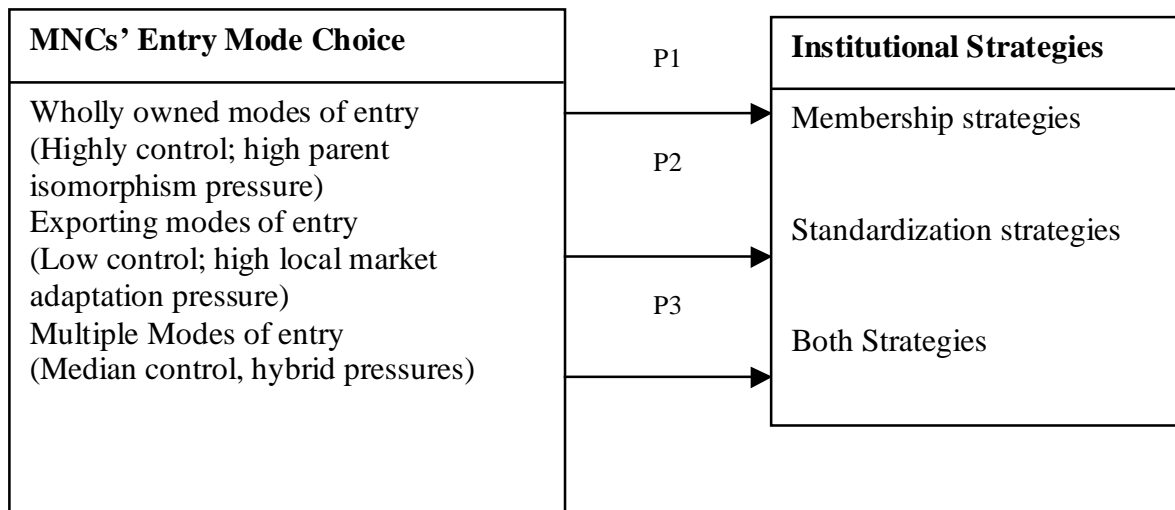


Figure 1. Conceptual Framework