EIBA 2010
3. Track: Corporate strategies in international business
Track Chair: José Pla-Barber

# Organizational imprinting in retail firms' entry mode choice

## ABSTRACT

Entry modes choice seems to be particularly important for retail firms due to their predominantly high resource needs for foreign expansion. Thus, an intensive assessment of external and internal environments for entry mode choices may be expected. But however, this study of 322 mode choices of the world largest retailers indicates a strong influence of an institutionalised entry mode on subsequent entry mode choices. By using the concept of intra-organisational imprinting, the findings support institutional isomorphism as the current mode choice is dependent upon past entry modes. Moreover, specific internal factors strength this behaviour while external host country pressures force retailers to adjust their institutionalized entry mode.

## KEYWORDS

Institutional theory, retail internationalization, foreign entry modes, longitudinal study, moderating effects

*Bernhard Swoboda*
Professor of Marketing and Retailing, Chair of Marketing and Retailing at Trier University, Germany, Universitaetsring 15, D-54296 Trier, Phone: +49 (0)651 201 3050, E-Mail: b.swoboda@uni-trier.de

*Stefan Elsner*
Ph. D. student at the Chair of Marketing and Retailing at the University of Trier, Germany, Universitaetsring 15, D-54296 Trier, Phone: +49 (0)651 201 2630, E-Mail: s.elsner@uni-trier.de

*Thomas Foscht*
Professor of Marketing, Chair of Marketing at the University of Graz, Austria, Elisabethstraße 50b/1, A-8010 Graz, Phone: + 43 (0)316 380 7200, E-Mail: thomas.foscht@uni-graz.at

## 1. Introduction

Years after large manufacturers and mainly since the late eighties leading retailers dynamically expand abroad. For example, Zara, Carrefour, IKEA, and Toys`R´Us have entered up to 70 countries and realize foreign sales ratios up to 80% (Gielens & Dekimpe, 2001; 2007). Decisions on entry location (which market to select), entry mode (how to enter), and operations (how to serve a market) are main challenges of retail firms who are concerned with international expansion. This study focuses on entry mode choice, i.e. institutional arrangements which determine performance and control of activities abroad (e.g. Brouthers, Brouthers & Werner, 2003; 2008). Sales motivated, initial entry modes are considered, i.e. retailers first operations of stores in a country from which it was absent with store activities before. Such entry mode choices seem to be particularly crucial for retail firms because of the mostly capital intensive nature of oversea expansion due to the local store networks and direct consumer contacts. Hence, it could be associated with retailer's high attention toward mode choices and maybe an intensive assessment of external and internal environments as the base for the choice of the most efficient entry mode. But however, research and practice draws another picture.

Scholars analyze intensively entry mode choice, i.e. various theoretical approaches and determinants which executives may evaluate to find the most efficiency entry mode (for reviews see Brouthers & Hennart, 2007; Morschett, Schramm-Klein & Swoboda, 2010; Zhao, Luo & Suh, 2004). Studies posit that most entry mode choices are based on firm's deliberate and conscious efforts to enhance their competiveness, efficiency, and control over critical resources (for a review in retailing see Swoboda, Zentes, & Elsner, 2009). But few studies found evidence that entry mode choice is depended upon past decisions (Benito, Petersen & Welch, 2009), like an institutionalized entry mode which was predominantly used in the past (Lu, 2002; Yiu & Makino, 2002). Regarding retail firms, Huang and Sternquist (2007) address such behaviour. In practice, for example the Metro Group—the world third largest retailer—states: our sales divisions follow the same fundamental concept in all countries and our corporate principles for international expansion are emerging countries, first mover advantages, organic growth, and three formats (METRO AG, 2010; Swoboda, Schwarz & Hälsig, 2007). Consequently, it is questionable: how do international operating retailers choose their entry mode? Do they frequently consider a set of internal and external environments to choose the most efficient entry mode or do they rather employ an institutionalized entry mode across countries? If such an institutionalized mode influences subsequent mode choices, which role play internal and external factors that obviously cannot be neglected?

This study supports a strong dependence of retailer's entry mode choice on institutionalized entry mode, i.e. current entry mode choices depend on entry modes which have most frequently been used in the past. Such institutional isomorphism is increased by firms' internal factors, while external pressures force retailers to adjust their institutionalized behaviour.

The results are counterintuitive to the prevailing opinion that firms intensively analyze their environments to choose the most efficient entry mode. Responding to Benito's et al. (2009) call to employ longitudinal studies in entry mode research, we analyze 322 market entries of the 20 worldwide largest retailers over time. Responding to Huang and Sternquist (2007) call for research on institutional theory in retailing, we stress the impact of intra-organizational imprinting on mode choice. The explanatory power of an institutional model is tested without a complement transaction costs model (Lu, 2002). For executives, we denote an ambivalent picture even if store retailers have limited entry mode options, mainly franchising/licensing type agreements, joint ventures (JV), wholly owned subsidiaries (WOS) (Huang & Sternquist, 2007). An institutionalized entry mode may shorten the mode choice process, but environmental pressures have still to be managed.

## 2. Hypotheses Development

### 2.1 Theoretical background

Transaction cost analysis (TCA) has predominantly been used for explaining entry mode choices. But however, institutional theory has recently increasingly been used in entry mode research as a complement to TCA (e.g. Arregle, Hébert & Beamish, 2006; Brouthers, 2002; Meyer, Estrin & Bhaumik, 2009). But even Williamson (1985) stressed that the analysis of individual transactions disrespect effects that might occur in the course of repetition of transactions. Hence, TCA is limited for explaining the procedural character of entry mode choices (Jones & Coviello, 2005). Consequently, we apply institutional theory which seems to be more appropriate for investigating the choice of initial entry modes across countries from a longitudinal perspective. Other theories are not considered although we are aware that FDI decisions are part of a broader corporate strategy, depending on prior activities and future plans (Hill, Hwang & Kim, 1990; Mani, Antia & Rindfleisch, 2007).

Institutional theory considers organizations as social actors who are embedded in their own internal and external environment consisting of structures, standards and practices established in the past as well as of other social actors, organizations and institutions (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). These institutions lead to isomorphic pressure by which the organizations respond in order to gain legitimacy. Afterwards, if a certain action is justified regarding those institutions, it becomes with an increasing frequency of adoption a taken for granted approach (Zucker, 1977). Hence, institutionalized actions are characteristically uniform and resistant to changes. This process is understood, according to Stinchcombe (1965), as imprinting.

### 2.2 Main effect of an institutionalized entry mode

Institutions can be categorized into regulative such as rules of law and governance issues, normative such as cultural differences and cognitive institutions such as intra- and inter-organizational historical norms and mimetic behaviour (Scott, 1985). Multinationals have to conform to those isomorphic pressures from the individual host countries comprising of the regulative and normative dimension as well within their organizations referring to the cognitive dimension. This study focuses on the latter one as the most significant dimension of entry mode choice (Yiu & Makino, 2002). The influence of cognitive isomorphic pressures on subsequent behaviour is known from cognitive psychology which assumes that individuals categorize social events as schemas and stereotypes (Markus & Zajonc, 1985). This is in accordance to the imprinting approach meaning decisions over time will be institutionalized and become taken-for-granted beliefs. Likewise it can be assumed that once an entry mode has been employed for several times it becomes institutionalized. This can be seen as a historic norm and goes along with the advantage of reducing searching costs of alternative decisions (Zucker, 1987). Thus, an institutionalized entry mode in the sense of the cognitive dimension is defined according to Lu (2002) as an entry mode which has frequently been used in the past.

Yiu and Makino (2002) analyze such an institutionalized entry mode and found evidence that multinational firms tend to use modes of entry that have been used in the same host country in the past.

The authors underline the influence of historical norms which lead to institutional persistence and which—additionally to the TCA-variable ‘parent experience’—capture the cognitive constraints of the decision maker from institutionalized past experiences. Lu (2002) demonstrates that the greater the frequency of adaptation of an entry mode in firm’s earlier entries the greater the propensity to use the same entry mode in subsequent market entries. Both studies argue by the imprinting approach. We assume that institutional imprinting is likewise relevant for the choice of retail entry modes meaning retailers persist in using an entry mode once a certain entry mode has been frequently adopted. Huang and Sternquist (2007) support this. They conceptualize institutional explanations of international retail expansion and state that global retailers such as The Body Shop generally favour the same entry mode for subsequent market entries. Thus, it is hypothesized:

**Hypothesis 1**: Institutionalized entry modes enhance the propensity to use the same market entry mode in subsequent market entries.

### 2.3 Moderating effects of the external and internal environment

The influence of an institutionalized entry mode on subsequent entry mode choices is determined by factors from the internal and external environment. Benito et al. (2009) stated that the idiosyncrasies of different countries hamper to use the same entry mode. Similarly, Huang and Sternquist (2007) argue with well known regulative pressures such as government restrictions and normative pressures such as cultural distance that retailers are forced to adapt their preferred entry modes. However, both studies do not investigate whether environmental factors exist that reinforce the use of institutionalized entry modes and whether an institutionalized mode will be adapted depending on internal and external pressures. Consequently, negative and positive moderating effects of the internal and external environment are incorporated in this study.

By considering Gao´s (2004) comprehensive framework of contingency factors of entry mode choice, we employ each two distinctive external and internal factors. Regarding the external environment, we assume that entry mode choice is linked to the question which market should be entered. Obviously, the related decision for market selection is generally based on market attractiveness of the host country. But sometimes even attractive markets are not worth to enter when competition is too high. Therefore, we consider the foreign business investment penetration as well the market attractiveness of the host country as moderators. The internal environment is represented by organizational learning meaning the concept of mode experience as introduced by Teece, Pisano and Shuen (1997). Accordingly, we distinguish between the amount of experience represented by international experience and the capability to gain international experience represented by the internationalization speed. The distinction between both is necessary because every international operating retailer gains international experience over time, but however, the capability to gain more or less international experience could differ by internationalization speed.

### 2.3.1 Moderating effects of the external environment

Dunning and Mc Queens (1981) analyze the host country's openness towards FDI, in particular the ratio of FDI over GDP, and expect that a high openness results in full control modes. They argue for the hotel sector that business travellers generally prefer high quality standards, which might rather be achieved by full control modes. The underlying assumption of this rationale is that business travellers can mainly be found in countries with a high level of openness towards FDI. Contractor and Kundu (1998) call this rationale into question. Using the same conceptualization but defining this as foreign business investment penetration they could not confirm a positive effect on the choice of full control modes. In contrast, Johnson and Tellis (2008) show a negative influence of country openness towards FDI on success and argued that increasing country openness increases competition. Regarding this, a high foreign business investment penetration in the host country is an indicator for opportunities but also threats, for instance, in transition economies which are characterized by a high ratio of FDI over GDP. As initially mentioned, retailers usually enter foreign markets after manufacturers. Thus, retailers enter into promising markets which are characterized by high FDI and are therefore willing to change their institutionalized entry mode. Thus, it is hypothesized:

**Hypothesis 2**: The positive influence of an institutionalized entry mode on the choice of subsequent entry modes will be weaker the higher the foreign business investment penetration in the host country.

Market attractiveness is a central factor in market selection models (Swoboda et al., 2007) as well a determining factor for market entry mode choices (Gripsrud & Benito, 2005). According to Gielens and Dekimpe (2001) we consider the host country's population size as a crucial attractiveness factor for retail firms because retailers attract mostly many comprehensive customer segments. Results on market attractiveness and entry mode choice are ambiguous (see for an overview the meta-analysis by Morschett et al., 2010). Some scholars assume that firms enter attractive countries via full control modes because this enables them to gain economies of scale and efficiency in long-term operations (e.g. Brouthers, 2002). Other scholars found evidence that firms enter attractive markets by shared-controlled modes because for example contractual modes are appropriate to enter rapidly (e.g. Hennart & Larimo, 1998). Due to these inconsistent results it can be assumed that retailers adjust their institutionalized market entry modes in highly attractive markets in order to respond to the local condition. Similarly, Gomes-Casseres (1990) states that firms tend to give up their ownership preferences in highly attractive markets. Thus, it is hypothesized:

**Hypothesis 3**: The positive influence of an institutionalized entry mode on the choice of subsequent entry modes will be weaker the higher the host country's market attractiveness.

### 2.3.2 Moderating effects of the internal environment

International experience is known as one of the most important sources of organizational learning. It is variously analyzed concerning institutional knowledge, firms' behaviour, or mode choice (Brouthers & Hennart, 2007). A low international experience causes uncertainty and intensive evaluations of the external environment (Haunschild & Miner, 1997), while a growing international experience may reduce such effects and maybe raises preferences for an institutionalized entry mode. Similarly, Benito, Petersen and Welch (2009) argue on the basis of mode learning that previous investments and routines influence subsequent behaviour. Accordingly, Lu (2002) evidences that international experience moderates positively the relationship between entry modes frequently used in the past and subsequent entry mode choices in foreign subsidiaries. Accordingly, we hypothesize for the mode choice of international operating retailers:

**Hypothesis 4**: The positive influence of an institutionalized entry mode on the choice of subsequent entry modes will be stronger the higher the international experience of the retail firm.

According to Oviatt and McDougall (2005) we understand internationalization speed as encompassing the country scope, i.e. how rapidly foreign market entries are accumulated. The internationalization speed refers to the capability to gain international experience which has been analyzed often within the internationalization process research (e.g. Oviatt & McDougall, 2005). Due to an increasing competition on international markets, a low internationalization speed has negative impact on internationalization success (Vermeulen & Barkema, 2002). In contrast, a high internationalization speed enables to realize economies of scale. Johanson and Vahlne (2003) confirm this positive relationship for consecutive entries and state that learning effects are responsible for creating competitive advantages. Furthermore, these learning effects lead to strategic routines. A firm gains knowledge by the high frequency of market entries and does not change its strategy for time reasons. In consequence, it can be assumed that the imprinting effect of prior entries is reinforced by increasing internationalization speed. Furthermore, internationalization speed refers to a corporate principle as initially mentioned by the Metro example. In this case, especially retailers prefer standardized concepts and an institutionalized entry mode for a quick international expansion. Hence, it can be hypothesized:

**Hypothesis 5**: The positive influence of an institutionalized entry mode on the choice of subsequent entry modes will be stronger the higher the internationalization speed of the retail firm.

In Figure 1, the stated hypotheses are depicted.

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Figure 1 goes about here

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## 3. Empirical study

### 3.1 Data

A longitudinal research design based on secondary data has been employed that enables to analyze inter-temporal variations and ensure the availability of data which are accurately and objectively documented contemporaneously. A sample of grocery retailers has been chosen for analysis that assures to control for sectoral influences. Grocery retailers are not specialized and address comprehensive consumer segments, in contrast for example to specialized non-food retailers. When starting data collecting in 2006, our guideline was to focus on the worldwide biggest retailers (according to Planet Retail, 2009). From the 30 biggest retailers we first identify international active retailers and exclude retailers with only national or sporadically internationalized operations (e.g. Kroger, Target, Walgreens, CVS, Supervalu) as well those with a specific history (e.g. Seven&J, where the master franchisee took over the franchisor). This procedure results in total to 20 international operating retail firms (see Table 1). These firms entered 322 markets of 83 countries with 80% of market entries from 1990 to 2008. We define market entry as the first time when a retailer operate a local store business in a host country from which it was absent with store activities before. We have not controlled other possible forms of market presence, which is in common in the retail sector regarding purchase activities. One retailer entered a country twice. In case of diversified retailers only the first entry—what often happens with the same sales line—was observed.

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Each variable has been collected from reliable sources at the time of market entry. Firms' data—such as year of entry, market entry modes and number of employees—have been obtained from the Planet Retail (2009) database, the company's annual reports and homepages depending on data availability. Country-related data have been provided from public available databases such as Worldbank and NationMaster. In case of incomplete information we searched in newspaper articles.

### 3.2 Measurement of variables

For the purposes of this study we differentiate full control modes (coded by 1) and shared-controlled modes (coded by 0) in response to differences in resource commitment, risk exposure, knowledge of local markets and control which is common practice in entry mode research (e.g. Ekeledo & Sivakumar, 2004). The distribution of market entries is as follows: 225 full control modes and 94 shared-controlled modes. The available database on retail firm's market entry does not provide further differentiations. For example Planet Retail (2009) does not differentiate between types of the 29 franchising/licensing contracts or equity holdings in WOS. Because in retailing the majority of acquisitions contain the market entry into a single country, we count 40 acquisitions as full control modes. We are aware of the differences between greenfield vs. acquisitions (Brouthers & Hennart, 2007) but meet concerns that for example Wal-Mart uses acquisitions for most initial market entries and acquisitions could be seen as almost the most promising entry mode in highly competitive and saturated grocery retail markets (Burt, Dawson & Sparks, 2008).

The measurement of independent and control variables is illustrated in Table 2. As suggested by Huang & Sternqiust (2007) and in consistence with Lu (2002) the number of identical entry mode choices made since the first expansion was counted. Consequently the institutionalized entry mode was measured with the ratio of full control entry modes over the number of all market entries from the first until the observed market entry. According to Contractor and Kundu (1998) and Johnson and Tellis (2008), foreign business investment penetration in the host country has been measured by the ratio of FDI to GDP. The amount of FDI is taken from each country's balance of payment (BoP) account, where receipts and deposits from other countries in current US$ are summed up. Market attractiveness has been measured by population size of the host country. The amount of international experience has been operationalized by computing the number of years from the first foreign market entry until the observed one. Vermeulen and Barkema (2002) measure the internationalization speed by the amount of market entries within a certain time period. Because grocery retailers realize seldom several market entries per year due to their capital intensive nature of expansion, the measurement of internationalization speed is modified by calculating the number of years of the last five market entries until the observed one. In the case of less than five market entries meaning at the beginning of internationalization activities, the number of years between the first and the current market entry have been computed. In order to facilitate the interpretation, the variable was inversely rescaled. A high value indicates thereby a high internationalization speed.

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Table 2 goes about here

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We controlled further for important variables which are supposed to influence entry mode choice (see Table 2). First, cultural distance is included because it may influence mode choice, even if recent meta-analyses conclude ambiguous results (Morschett et al., 2010). Grocery retailers may tend to employ full control modes in cultural distant countries due to the high investment risk. We compute the Euclidian distances between home and host country based on the values of the globe dimensions. Second, geographic distance is included as control. We estimate that retailers tend to employ shared-controlled modes in geographical distant markets due to a higher risk perception and compute the distance between the capitals of the home and host market. Third, firm size was controlled because for large companies full control modes are likely. Firm size was measured using the number of employees. Fourth, market size is used as control variable because full control modes may be more often employed in large markets. Market size was measured by the GDP of the entered country.

### 3.3 Method

The applied logistic regression investigates the probability that full control modes are chosen over shared-controlled modes depending on the institutionalized entry mode under certain conditions. Before running the analysis, a separate outlier diagnostic has been conducted in order to avoid biases in the analysis owing to extreme values. Three observations have been excluded because they exceed the cut-off points of 3.0 regarding the standardized residuals and 1.0 regarding the Cook’s distance. All independent variables have been mean centred prior to the analysis because such a linear transformation is useful to avoid multicollinearity in models with comprehensive interaction effects. As illustrated by the correlation matrix in Table 3, all correlations fall almost below 0.500. Furthermore, the variance inflation factors are all lower than the recommended threshold of 2.0 (Hair et al., 2010). Hence, it can be concluded that multicollinearity is not a serious problem.

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Table 3 goes about here

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**3.4 Results**

The descriptive statistics of the data sample are presented in Table 4 and Table 5 illustrates the results of the models 1 to 6 which are analyzed subsequently. The overall model fit of Model 6 is reasonably high with a Nagelkerke's $R^2$ of 0.599. Thus, the data fit the proposed conceptual framework very well. Moreover, 85.0 % of the observations are correctly classified. Although, with regard to the different size of both full and shared control groups, this value needs to be compared with the proportional chance criterion (PCC) in order to give implications concerning the model goodness. The PCC value accounts for 59.22 %. Thus, the classification rate of Model 6 is 25% higher than the PCC as it is required for a good predictive power (Hair et al., 2010).

In order to demonstrate the improved explanatory power by the moderating effects, Model 1, which contains exclusively the institutionalized entry mode, is compared with Model 6. The test provided by Aiken and West (1991) to compare different degree's in Nagelkerke's $R^2$ shows that the Nagelkerke's $R^2$ of 0.533 for Model 1 and 0.599 for Model 6 differs significantly on a $p < 0.05$ level. Furthermore, Model 2 and 6 are compared in order to test that incorporating of moderating effects leads to a higher explanatory power than incorporating the same variables as direct effects. The equation is estimated with a Nagelkerke's $R^2$ of 0.566 for Model 2 and 0.599 for Model 6. The resulting t-value of 4.587 indicates a significant difference between both models on a level of $p < 0.05$. In conclusion, explanatory power is substantially enhanced by the moderating effects.

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Tables 4 and 5 go about here

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Hypothesis 1 suggested that an institutionalized entry mode influences the choice of the same entry modes in subsequent choices. The positive coefficient and the high significance level ($p < 0.001$) indicate strong support for this hypothesis. Thus, the data show that retail entry mode choices are strongly dependent on the entry modes frequently used in the past.

In hypothesis 2 it is assumed that the aforementioned relationship will be negatively influenced by foreign business investment penetration of the host country. The negative coefficient ($p < 0.01$) indicates that this hypothesis can be supported, i.e. retailers adapt their institutionalized entry mode in countries with high foreign business investment penetration. As suggested by Erramilli and Rao (1993), the impact of the moderating effects is additionally visualized for a more meaningful understanding in Figure 2. As illustrated, when foreign business investment penetration in a particular country is low, the institutionalized entry mode has a high impact on the choice of subsequent entry modes. When foreign business investment penetration is high as indicated by the horizontal line, no difference between firms with a high and a low institutionalized entry mode exist, i.e. the influence of the institutionalized entry mode on the choice of subsequent entry modes disappears. Thus, it can be concluded that retailers choose a different entry mode than the institutionalized one in case of countries with a high foreign business investment penetration. In contrast, countries with less FDI are entered by retail firms with the institutionalized entry mode.

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Figure 2 goes about here

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In hypothesis 3 it is assumed that a retailer tends to depart from the institutionalized entry mode in case of highly attractive markets. It is argued that retailers refer less to institutionalized entry modes to generate maximum benefits in such markets. The negative coefficient in Table 4 is significant at the $p < 0.05$ level so that this hypothesis can be supported. Figure 3 visualizes this result although it is less obvious. The slope of the line representing low market attractiveness is slightly steeper than the slope of the line indicating high market attractiveness. Thus, the impact of institutionalized entry modes on subsequent entry modes choice is slightly weaker, when countries are more attractive for grocery retailer. Thus, retailers tend to depart from their concepts and routines rather in attractive than in less attractive markets.

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Figure 3 goes about here

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Hypothesis 4 investigates that international experience reinforces the imprinting effect. The positive coefficient in Table 5 is significant on a $p < 0.05$ level so that it can be supported that an increasing level of international experience reinforces retailers to employ the same institutionalized entry mode for subsequent market entries. This result is visualized in Figure 4. The slope for high international experience is steeper which indicates that institutionalized entry modes are particularly employed in this case. In contrast, the slope for low international experience is less steeper which indicates that an institutionalized entry mode is less likely employed in subsequent entry modes. Thus, the higher the international experience of a retailer the stronger the impact of institutionalized entry modes on the choice of subsequent entry modes. This might be surprising if we consider process models of internationalization and if our measure will be seen as part of foreign country knowledge. One explanation could be that retailers with high experience just employ this entry mode which is most promising for success.

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Figure 4 goes about here

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Hypothesis 5 states that internationalization speed reinforces the propensity to employ an institutionalized entry mode. Thus, it is assumed that firms which internationalize rapidly follow their strategic routine. The results in Table 5 support this assumption at a $p < 0.05$ level so that this hypothesis is confirmed. Figure 5 illustrates this by showing that in case of high internationalization speed the impact of institutionalized entry modes on subsequent mode choice is more exigent than in the case of low internationalization speed. The result is plausible. Retail firms that enter into many markets in a short period of time tend to use as many standardized concepts as possible because of the capital intensive nature of expansion.

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Figure 5 goes about here

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By analyzing the influence of the control variables on mode choice, significant results are mostly in line with previous observations on market entry modes between full and shared controlled modes. Cultural distance, firms' size and market size are significant positively linked with the choice of a full control mode, while a high geographic distance leads to the use of shared-controlled modes.

## 4. Discussion and conclusions

### 4.1 Research implications

The present study examines the influence of institutionalized entry modes on the choice of subsequent entry modes taking into consideration of moderating effects of the internal and external environment over time. These effects are investigated in the research context of the increasing retail internationalization and the high importance of retail entry mode decisions due to the high resource commitments and a narrow research status (Gielens & Dekimpe 2001; 2007; Huang & Sternquist, 2007; Swoboda et al., 2009). By using the concept of intra-organizational imprinting, our results support institutional isomorphism as an institutionalized entry mode influence strongly subsequent entry mode choices. Moreover, internal factors—international experience and internationalization speed—strength this behaviour. In contrast, external factors—foreign business investment penetration and market attractiveness—force retailers to adjust their institutionalized entry mode. This results in two major research implications—regarding institutional theory and the moderating effects—and some managerial conclusions.

First, the results suggest that the imprinting effect explain substantially the retailer's mode choices across countries and enhances the explanatory power of entry mode choice in addition to previous studies that employ transaction cost theory (Lu, 2002). Thus, we can conclude according to Huang & Sternquist (2007) that institutional theory provides useful explanations for the dynamics of entry mode choices in retailing. Furthermore, we enhance existing knowledge by responding to the first two research questions about how international retailers choose entry modes and whether they consider a set of environmental factors or just a preferred entry mode. On the one hand, our results support the notion that the retailer's evaluation of the host country environments during market selection (Swoboda et al., 2007) diminishes the use of an institutionalized entry mode. Thus, entry mode choice might be rather determined instead of a result of an independent decision making process. Consequently, calls for broader, hierarchical studies on the multifaceted institutional environment (Pan & Tse, 2000) might be adjusted by considering market selection. On the other hand, we conceptualize intra-organizational historical norm as used in previous studies (Lu, 2002; Yiu & Makino, 2002). However, a call for studies which explain the formation of firm's isomorphism and institutionalized entry modes is important because an institutionalized entry mode might not only be related to institutional pressures. Retailers have few entry mode options, mostly few formats and maybe corporate strategies for expanding abroad or even preferences for modes which are used in national expansion. Consequently the consideration of executive's decisions—on corporate strategy and home country expansion—is a promising research field concerning the dynamics of entry mode choice.

Second, the results suggest that the influence of historic entry modes on entry mode choice is positively and negatively moderated which refers to our third research question. Two conclusions are interesting. On the one hand, external environmental factors decrease the use of institutionalized entry modes. Retailers employ rather institutionalized entry modes within less attractive countries as well within countries with fewer FDI but depart from this behaviour in countries with opposed environments. On the other hand, internal environmental factors reinforce institutional behaviour. This is to the best of the authors' knowledge, the first observation in the context of institutional theory and underlines the call for studies which investigates the formation of institutional isomorphism. Especially the results on the internationalization speed reinforce this call because it is may be a part of the corporate strategy.

### 4.2 Managerial implications

This study provides some relevant managerial implications. First, expansion managers in retail firms know of course their preferred entry mode and may acknowledge this as an efficient way of foreign expansion. But the question is, do they select new foreign markets and recommend them to CEOs for a final decision on that base? In this case, consequences arise. Studies show that specific market entry modes determine the functions, the steps and the criteria of country selection models (Swoboda et al., 2007). Thus, managers have to ask themselves, whether they select promising countries or whether they select countries which are most promising for their institutionalized entry mode. Do they maybe have disadvantages against competitors who select the most attractive markets first and choose then the most efficient entry mode? Second, Huang and Sternquist (2007) conclude that retailers have to identify institutional pressures to understand their different and maybe independent magnitudes as well to manage the institutional environment strategically. But that is probably not easy in practice. This study indicates few factors which significantly lead to a rethinking of the commonly used entry mode. Market attractiveness as well as regulative institutions are observable prior to an entry mode choice and could be include in market selection models while normative institutions might not easily be identified before entry. Furthermore, the relevance of such factors and of the institutionalized entry mode might depend on retailer's internationalization speed, flexibility or different aim to enter countries (e.g. new high potential market vs. close a white gap in the country portfolio Swoboda et al., 2007). Thus firms need a broad understanding on the dependencies of the initially stressed challenges of international expansion, e.g. which market to select, how to enter, how to serve a market.

### 4.3 Limitations and further research

Important research questions were mentioned, thus finally major limitations have to be pointed out. Firstly, the generalization of results may be limited because we analyze only grocery retailers. This accented the control for sectoral influences but may show differences to specialized non-food retailers. However, The Body Shop and Sephora or Starbucks and McDonalds seem to use institutionalized entry modes too, even if they are franchise related. Secondly, our results are based on comparison of full and shared-controlled modes only which might be a subject to question. Future studies may address differences in equity holdings in WOS as well as specific franchise/license type agreements which are of particular importance especially in non-food retailing. Thirdly, the results might be dominated by retailers with many foreign market entries (e.g. Carrefour) and the host country related variables were measured corresponding to the year of market entry. While grocery retailers have to build a new value chain in host markets, what takes time, the decisions on entry is taken one year before.

**FIGURE 1: Conceptual framework**

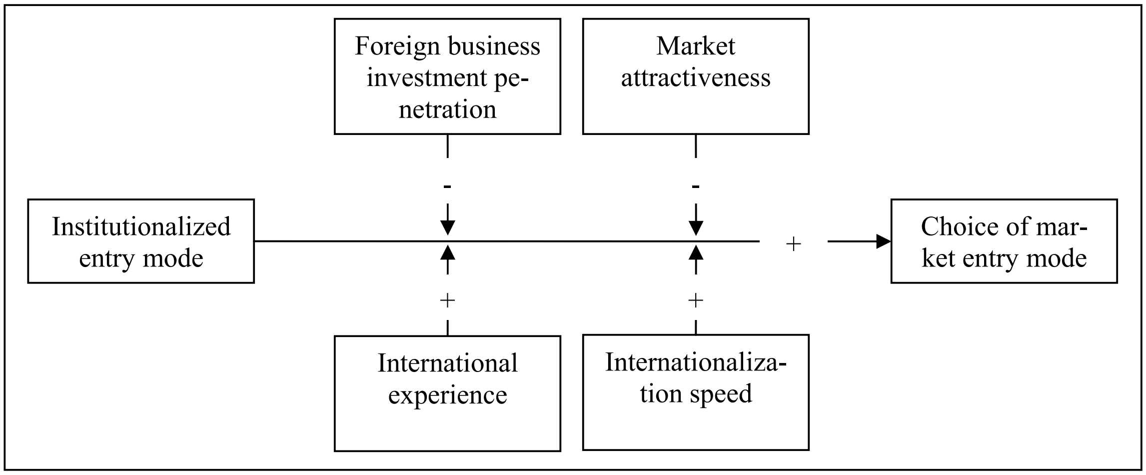


**TABLE 1: International grocery retailers in 2008**

| Company | Rank in world | Total sales in bn $ | Foreign sales ratio | No of oversea markets | Company | Rank in world | Total sales in bn $ | Foreign sales ratio | No of oversea markets |
|---|---|---|---|---|---|---|---|---|---|
| Wal-Mart | 1 | 342 | 25% | 16 | Intermarché | 17 | 44 | 10% | 8 |
| Groupe Carrefour | 2 | 110 | 56% | 31 | Safeway | 18 | 43 | 15% | 1 |
| Metro Group | 3 | 86 | 61% | 32 | Edeka | 19 | 40 | 5% | 1 |
| Tesco | 4 | 85 | 27% | 13 | Casino | 21 | 37 | 32% | 10 |
| Costco | 5 | 71 | 22% | 7 | Spar | 22 | 37 | 56% | 33 |
| Schwarz Group | 6 | 69 | 49% | 26 | Ahold | 23 | 33 | 65% | 8 |
| Rewe | 9 | 61 | 29% | 14 | Tengelmann | 25 | 30 | 42% | 14 |
| Auchan | 12 | 51 | 50% | 11 | Delhaize Group | 28 | 24 | 77% | 7 |
| Aldi | 13 | 51 | 41% | 17 | Migros | 29 | 19 | 1% | 1 |
| Leclerc | 15 | 46 | 6% | 6 | Dansk Supermarket | 30 | 11 | 32% | 4 |

Excluded without any FDI Kroger (Rank 7), Target (8), Walgreens (11), CVC (14), Supervalu (26), very few FDI Sears (16), Woolworths (24), Sainsbury (27), specific history of expansion Seven&I (10) and AEON (20). Divestments are not included in our database.

**TABLE 2: Measurement of variables**

| No. | Variable | Description | Scale | Item Characteristic | Sources |
|---|---|---|---|---|---|
| *Moderators* | | | | | |
| 1 | Institutionalized entry mode | Percentage of previous market entries that were full control modes | Continuous | 0 - 1 | Lu, 2002; Huang & Sternquist, 2007 |
| 2 | Foreign business investment penetration in the host country | Ratio of FDI over GDP | Continuous | 0 - ∞ | Contractor & Kundu, 1998; Johnson and Tellis, 2008 |
| 3 | Market attractiveness | Host country population per million people | Continuous | 0 - ∞ | Gielens & Dekimpe, 2001 |
| 4 | International experience | General international experience in years form the first to the current market entry | Continuous | 0 - ∞ | Brouthers, 2002; Fladmoe-Lindquist & Jacque, 1995 |
| 5 | Internationalization speed | Number of years of the previous 5 market entries | Continuous | 0 - ∞ | Acc. Vermeulen & Barkema, 2002 |
| *Controls* | | | | | |
| 6 | Cultural distance | Distance in globe dimensions between home and host country | Continuous | 0 - ∞ | Acc. House et al., 2007; Kogut & Singh, 1988 |
| 7 | Geographical distance | Distance between the capitals of home and host country per 100 miles | Continuous | 0 - ∞ | Gielens & Dekimpe, 2001; Gripsrud & Benito, 2005 |
| 8 | Firm size | Number of employees per 10,000 employees | Continuous | 0 - ∞ | Brouthers, 2002; Erramilli & Rao, 1993; Meyer, 2001 |
| 9 | Market size | Gross domestic product (GDP) in 10 bn $ | Continuous | 0 - ∞ | Li & Guisinger, 1992 |

## TABLE 3: Correlation matrix

| | Variables | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Cultural distance | - | | | | | | | | | | | | |
| 2 | Geographical distance | -0.048 | - | | | | | | | | | | | |
| 3 | Firm size | -0.059 | **0.149** | - | | | | | | | | | | |
| 4 | Market size | **-0.223** | **0.133** | 0.024 | - | | | | | | | | | |
| 5 | Institutionalized entry mode | 0.023 | **-0.254** | **-0.352** | 0.042 | - | | | | | | | | |
| 6 | Foreign business investment penetration in the host country | -0.063 | -0.077 | -0.012 | -0.059 | 0.035 | - | | | | | | | |
| 7 | Market attractiveness | -0.022 | **0.319** | **0.128** | **0.239** | -0.055 | -0.042 | - | | | | | | |
| 8 | International experience | **0.330** | **0.114** | 0.073 | **-0.134** | 0.088 | 0.071 | 0.023 | - | | | | | |
| 9 | Internationalization speed | 0.071 | 0.079 | 0.072 | 0.013 | -0.078 | -0.083 | 0.059 | **-0.206** | - | | | | |
| 10 | Institutionalized entry mode x Foreign business investment penetration | 0.038 | -0.005 | 0.031 | -0.026 | -0.038 | **0.345** | -0.011 | 0.001 | **-0.122** | - | | | |
| 11 | Institutionalized entry mode x Market attractiveness | 0.053 | **-0.135** | **-0.143** | 0.020 | -0.023 | -0.011 | **-0.266** | 0.077 | -0.016 | -0.035 | - | | |
| 12 | Institutionalized entry mode x International experience | -0.001 | 0.097 | **0.174** | -0.040 | **-0.518** | 0.001 | 0.076 | **0.225** | -0.025 | **0.146** | 0.022 | - | |
| 13 | Institutionalized entry mode x Internationalization speed | 0.110 | **-0.143** | -0.048 | -0.005 | **0.233** | **-0.115** | -0.015 | -0.025 | -0.047 | **-0.148** | 0.040 | **-0.415** | - |

Note: N = 319. Two-tailed Pearson correlations. Correlation higher than 0.1 are significant at a 0.05 level, higher than 0.2 at a 0.01 level.

**TABLE 4: Descriptive statistics**

| No. | Construct | Mean value | Standard deviation | Min | Max |
|---|---|---|---|---|---|
| 1 | Institutionalized entry mode in percent | 0.723 | 0.27 | 0.00 | 1.00 |
| 2 | Foreign business investment penetration in the host country | 0.057 | 0.28 | 0.00 | 3.21 |
| 3 | Market attractiveness per million inhabitants | 80.295 | 219.81 | 0.18 | 1296.16 |
| 4 | International experience in years | 18.330 | 13.98 | 0.00 | 58 |
| 5 | Internationalization speed in years | 6.120 | 5.94 | 0.00 | 29.00 |
| 6 | Cultural distance | 2.277 | 1.30 | 0.00 | 5.79 |
| 7 | Geographical distance per 100 miles | 3.641 | 3.94 | 0.16 | 16.7 |
| 8 | Firm size per 10,000 employees | 17.985 | 28.02 | 0.63 | 200.00 |
| 9 | Market size per 10 billion US-$ | 45.242 | 105.56 | 0.24 | 1007.59 |

*N* = 319.

## TABLE 5: Results of binary logistic regressions

| | Dependent Variable: Full control mode = 1 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Model 1 | | Model 2 | | Model 3 | | Model 4 | | Model 5 | | Model 6 | |
| Measures | Beta | Wald | Beta | Wald | Beta | Wald | Beta | Wald | Beta | Wald | Beta | Wald |
| *Predictors* | | | | | | | | | | | | |
| Institutionalized entry mode | 6.814 *** | (59.195) | 7.661*** | (57.466) | 7.526*** | (51.583) | 7.715*** | (51.110) | 8.062*** | (54.891) | 7.959 *** | (54.150) |
| Foreign business investment penetration | | | 0.089† | (2.962) | 0.068* | (4.635) | 0.075* | (5.640) | 0.086* | (7.294) | 0.093 ** | (8.402) |
| Market attractiveness | | | -0.001ns | (1.543) | -0.001† | (3.485) | -0.001† | (3.642) | -0.001* | (4.551) | -0.002 * | (4.886) |
| International experience | | | -0.029* | (4.011) | -0.029* | (4.057) | -0.028† | (3.423) | -0.038* | (5.719) | -0.030 † | (3.516) |
| Internationalization speed | | | -0.013ns | (0.244) | -0.010ns | (0.124) | -0.018ns | (0.444) | -0.025ns | (0.746) | 0.012 ns | (0.162) |
| *Moderating effects* | | | | | | | | | | | | |
| Institutionalized entry mode x Foreign business investment penetration | | | | | -0.230* | (3.842) | -0.260* | (5.049) | -0.314** | (7.139) | -0.330 ** | (7.898) |
| Institutionalized entry mode x Market attractiveness | | | | | | | -0.005† | (3.468) | -0.005† | (3.522) | -0.006 * | (4.317) |
| Institutionalized entry mode x International experience | | | | | | | | | 0.184* | (5.385) | 0.233 * | (6.506) |
| Institutionalized entry mode x Internationalization speed | | | | | | | | | | | 0.280 * | (3.859) |
| Covariates | | | | | | | | | | | | |
| Cultural distance | 0.341 * | (6.098) | 0.499** | (10.643) | 0.523** | (10.934) | 0.603*** | (13.294) | 0.669*** | (14.647) | 0.595 *** | (12.112) |
| Geographical distance | -0.098 * | (6.310) | -0.083† | (3.810) | -0.085* | (3.875) | -0.079† | (3.187) | -0.092* | (4.245) | -0.095 * | (4.697) |
| Firm size | 0.009 † | (3.409) | 0.012* | (5.597) | 0.014* | (6.646) | 0.013* | (5.633) | 0.013* | (5.829) | 0.012 * | (5.044) |
| Market size | 0.007 * | (5.134) | 0.008* | (5.551) | 0.010* | (6.480) | 0.009* | (6.405) | 0.009* | (6.657) | 0.009 ** | (6.868) |
| *Constant term* | 1.403 *** | (53.789) | 1.759*** | (44.368) | 1.715*** | (52.437) | 1.742*** | (52.488) | 1.858*** | (55.978) | 1.848 *** | (55.667) |
| *Model indices* | | | | | | | | | | | | |
| N | 320 | | 319 | | 318 | | 318 | | 318 | | 319 | |
| Model chi-square | 149.2 *** | | 160.7*** | | 166.6*** | | 169.5*** | | 172.5*** | | 172.4 *** | |
| Cox & Snell R² | 0.373 | | 0.395 | | 0.408 | | 0.413 | | 0.419 | | 0.417 | |
| Nagelkerke's R² | 0.533 | | 0.566 | | 0.584 | | 0.592 | | 0.602 | | 0.599 | |

Legend: † $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$, ns = not significant; values in parentheses are Wald statistics; percentage correctly classified by model 6: 85.0 %.

**Figure 2: The moderating effect of foreign business investment penetration in the host country**

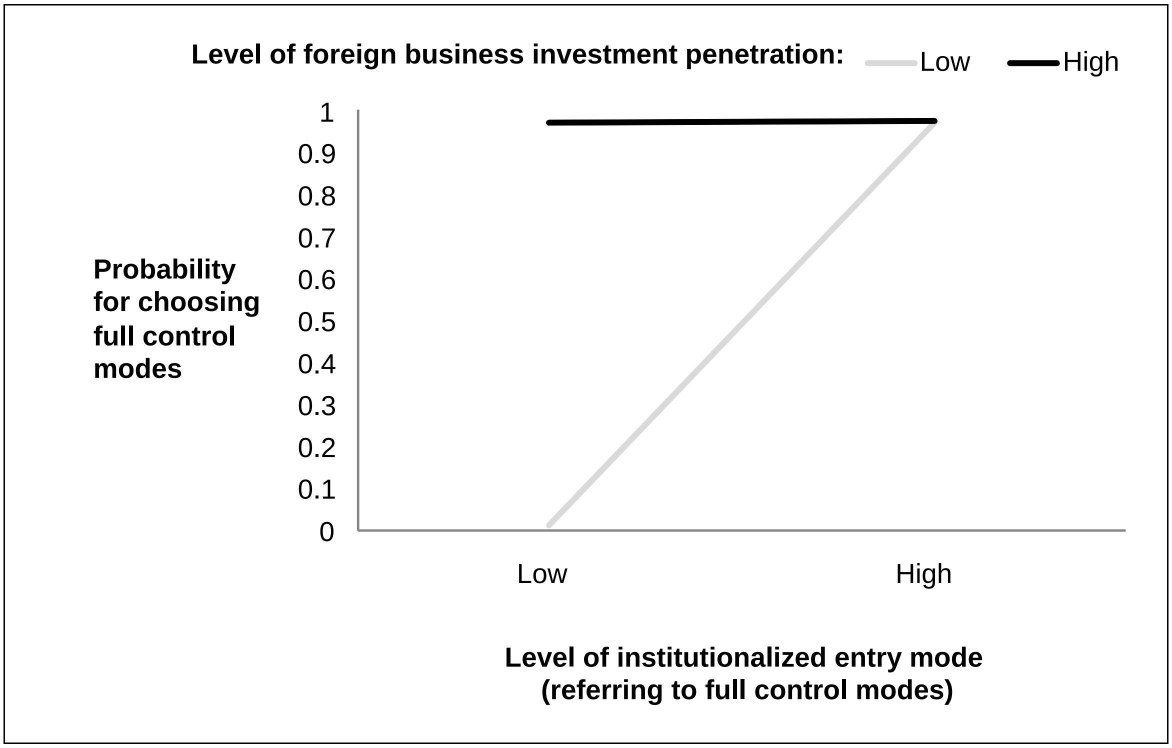


**FIGURE 3: The moderating effect of market attractiveness**

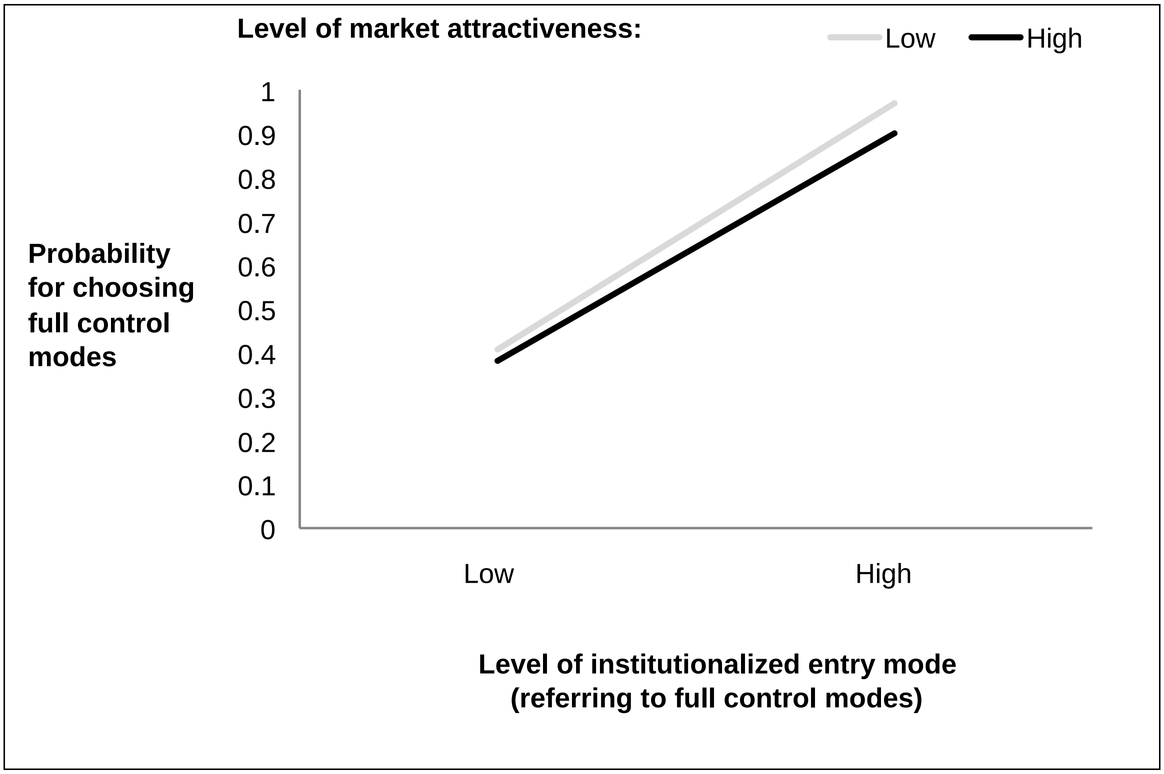


**FIGURE 4: The moderating effect of international experience**

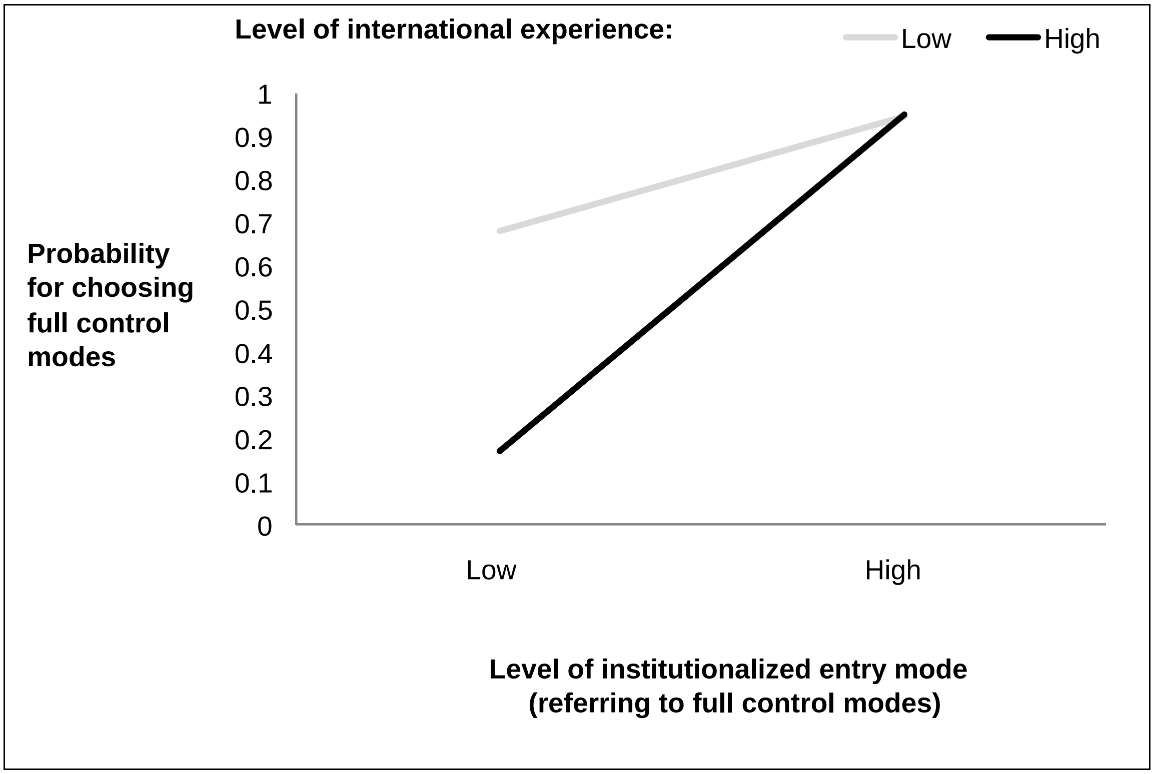
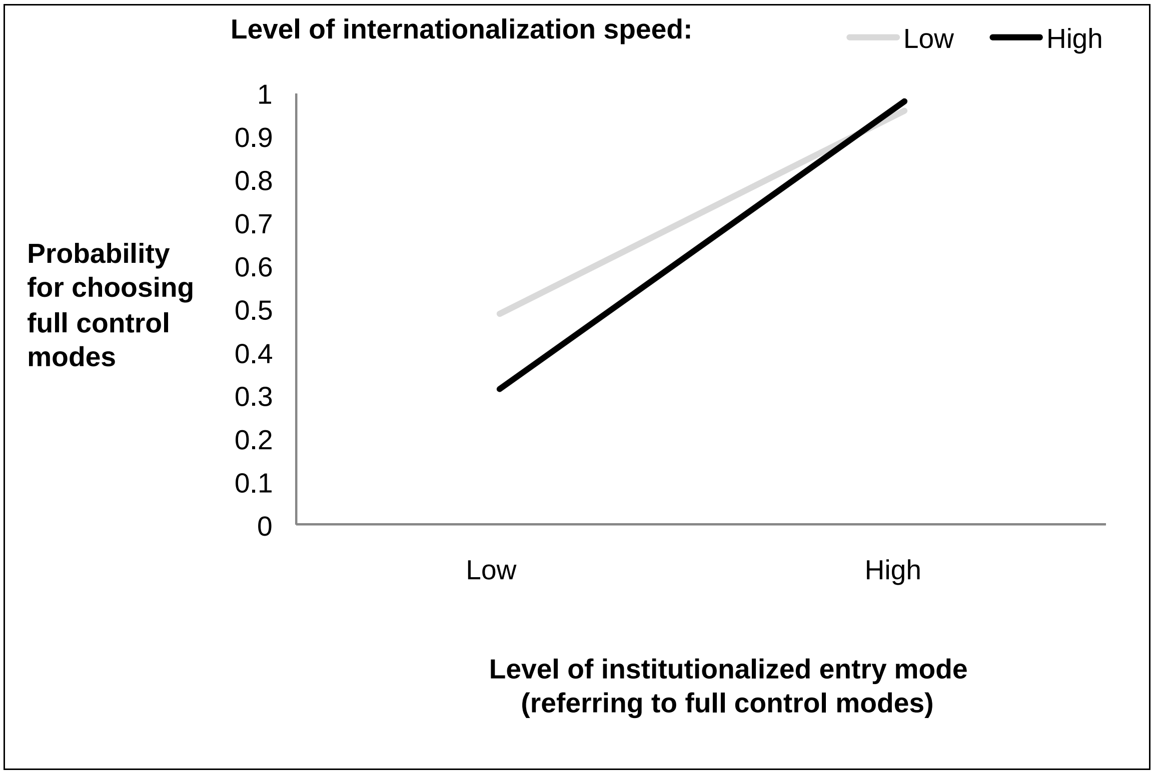


**FIGURE 5: The moderating effect of internationalization speed**



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