



How do past mode choices influence subsequent entry? A study on the boundary conditions of preferred entry modes of retail firms



Bernhard Swoboda*, Stefan Elsner, Edith Olejnik

University of Trier, Department of Marketing and Retailing, Universitätsring 15, D-54286 Trier, Germany

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ABSTRACT

This study analyzes whether the preferred entry modes, i.e., the foreign market entry modes that have been most frequently used in the past, influence a retail firm's subsequent mode choices. We discuss the limitations of this relationship by highlighting the external and internal factors that determine the effects of preferred modes on later entry decisions. To provide insight into these issues, we refer to institutional- and knowledge-based reasoning and use a data set that includes 309 market entries by the 30 leading retailers between the years 1960 and 2008. The results indicate that preferred entry modes show strong explanatory power with regard to the subsequent choice of full- and shared-control modes in entering new country markets. Although this relationship is diminished by the external institutional environment (e.g., political distance), firm-specific capabilities, e.g., international experience and internationalization speed, reinforce the use of preferred entry modes.

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1. Introduction

The choice of a foreign market entry mode, i.e., an organizational arrangement that makes the entry of firm resources into a foreign country possible (Root, 1987), is a crucial decision that has been extensively analyzed in the literature (e.g., Brouthers & Hennart, 2007; Morschett, Schramm-Klein, & Swoboda, 2010). Most often, it has been assumed that the entry mode choice follows the deliberate efforts of firms to enhance their competitiveness, efficiency, and control over critical resources. However, Anderson and Gatignon (1986) state that some firms may behave in this manner, whereas others simply rely on past decisions. In general, past decisions are important to firms' subsequent behavior. Benito, Petersen, and Welch (2009) argue that past entry decisions may determine subsequent mode choices in new country markets. Hence, this study addresses the effects of preferred entry modes, i.e., modes that have been predominantly used in the past, on later mode choices. We particularly emphasize the contextual limitations, or the boundary conditions, of this relationship.

The contextual factors that influence the extent to which firms can employ their preferred entry mode are particularly important for retail firms. Many well-known retailers have aggressively and

extensively internationalized, especially during the last two decades (Huang & Sternquist, 2007). With every entry into a new country, grocery retailers must commit tremendous resources to build a store network and establish a local presence (Goldman, 2001). Hence, they most often use full-control modes (wholly owned subsidiaries, acquisitions) rather than shared-control modes (joint ventures, franchising, licensing) when entering foreign countries (Gielens & Dekimpe, 2001; Gamble, 2010). They furthermore tend to have preferences for certain entry modes that can be easily reproduced. The Metro Group, the fourth-largest retailer in the world, claims their preference for full-control modes on its homepage: "Our corporate principles for international expansion are emerging countries, first mover advantages, and organic growth" (METRO AG, 2013). It can be assumed that many retailers have a preferred entry mode, but we argue that the influence of this preferred mode on later mode choices is bounded by contextual factors. For example, the French retailer Carrefour prefers full-control modes but will adapt its entry method due to local regulations (Bell, Lal, & Salmon, 2004; the same is true of British Tesco in Thailand, Samiee, Yip, & Luk, 2004). Other retailers are forced to use full-control modes due to local governments' intent of increasing foreign direct investments (Grewal & Dharwadkar, 2002).

Therefore, we aim to analyze whether preferred entry modes predict subsequent mode choices. Moreover, we examine how external environmental pressures and internal capabilities moderate the relationship between preferred entry modes and

* Corresponding author. Tel.: +49 651 201 3050; fax: +49 651 201 4165.
E-mail address: b.swoboda@uni-trier.de (B. Swoboda).

subsequent mode choices. This research offers three contributions to the existing literature. First, we extend knowledge on the mode choices of retail firms, which is important because retailers differ from manufacturing firms in many ways but have rarely been analyzed in previous entry mode research (e.g., [Sanchez-Peinado, Pla-Barber, & Hébert, 2007](#); [Zhao, Luo, & Suh, 2004](#)). Second, answering [Meyer, Estrin, Bhaumik, and Peng's \(2009\)](#) call for research in this area, we contextualize the relationship between preferred entry modes and subsequent mode choice by investigating the moderating effects of external institutional environments and internal capabilities. Third, following the call for more research on retailing issues that considers institutional theory ([Huang & Sternquist, 2007](#)) we combine institutional- and knowledge-based reasoning to analyze the relationships. For managers, this study offers insights into the effects and limits of preferred entry modes. Many managers that have used the expression “we have always done it this way” at some point may better reflect the effects and boundaries of these managerial decisions.

2. Theoretical background

2.1. Preferred entry modes and subsequent mode choices

The modes that have been most frequently used in the past, i.e., preferred entry modes, may determine subsequent entry mode choices ([Benito et al., 2009](#)). Organizations persist in continuing the same type of activity over time because search rules change slowly and remain conditioned by previously attempted solutions ([Cyert & March, 1963](#); [Miller & Friesen, 1980](#)). Such decisions are not independent of one another; they are inseparable from the results of previous decision making ([Forest & Mehier, 2001](#)). Hence, organizations are shaped by historical factors that limit the range of options available to their decision makers. Furthermore, the theory of organizational inertia ([Romanelli & Tushman, 1986](#); [Tallman & Shenkar, 1994](#)) posits that successful firms institutionalize established activity patterns so that the likelihood of change becomes remote. Empirical support for the effects of past decisions on subsequent mode choices is provided only for initial entry modes chosen in sequential entries into one specific country ([Chang & Rosenzweig, 2001](#)), for the effect of the number of prior years of full ownership on later initial entries ([Padmanabhan & Cho, 1999](#)), and for the effect of preferred modes in the same host country ([Yiu & Makino, 2002](#)) as well as across Western countries ([Lu, 2002](#)). Little is known about this behavior for service firms in general or for retailers specifically. Moreover, the boundary conditions of preferred entry modes can extend our knowledge of the limitations of choosing the preferred mode repeatedly. Therefore, we will discuss the theoretical roots of preferred entry modes and then elaborate on the specifics for retail firms.

2.2. Knowledge-based and institutional theory

Mode learning and mode habitualization are common approaches that are used to explain how preferred modes develop and how they affect subsequent mode choice ([Benito et al., 2009](#)).

The term mode learning can be traced back to the knowledge-based theory of firms. This perspective recognizes that knowledge is the most strategically important resource in a firm ([Kogut & Zander, 1993](#)). In entry mode research, this perspective is relevant because firms need to consider the compatibility between the firm's existing knowledge and the knowledge that the firm will require to be successful in the new market. In this context, both firm-specific and context-specific knowledge ([Madhok, 1997](#); [Zander & Kogut, 1995](#)) explain the effect of prior decisions on subsequent entry modes. [Chang and Rosenzweig \(2001\)](#) state that

firms learn from prior mode experience and reduce risk by using established modes. Building on [Chang \(1995\)](#), the authors demonstrate that business lines that initially entered a country through a given mode of entry will, all other things being equal, choose the same entry mode again. [Padmanabhan and Cho \(1999\)](#) emphasize this behavior by referring to decision-specific experience. Positive mode experiences lead to growing knowledge and confidence in the continued use of the same mode, whereas negative mode experiences lead to a bias against using the same mode (e.g., [Welch, Benito, & Petersen, 2007](#)). Knowledge-based reasoning is valuable not only because it can reveal the effects of past modes on subsequent mode choices but also because it can be used to determine the limitations of this effect.

The term mode habitualization is based on institutional theory, which considers organizations to be social actors who are embedded in internal and external environments that consist of structures, standards, and practices that have been established in the past by other social actors, organizations, and institutions ([DiMaggio & Powell, 1983](#); [Meyer & Rowan, 1977](#)). These institutions impose isomorphic pressures on organizations to assimilate. The organizations must respond to these pressures to gain legitimacy. During their international expansion, firms mainly face two important pressures: they need to achieve conformity with the environment of the host country and with the organizational practices within the MNC. When entering a foreign market, the external pressure to conform to the environment is evident. There are external regulative pressures such as political-legal requirements as well as external normative pressures such as informal norms, values, and beliefs. Although these factors may lead to the adaptation of established decisions, the internal pressure encourages consistency. Internal cognitive pressures include firms' habitual behaviors and repeated actions that are developed over the course of history ([Berger & Luckmann, 1967](#)). These pressures yield organizational processes that result in institutionalized decisions characterized by stability and resistance to change. Hence, habitualization refers to processes in which actions that are repeated become taken-for-granted patterns or routines that can be easily reproduced ([Berger & Luckmann, 1967](#)). The two primary mechanisms that facilitate habitualization are imprinting and bypassing ([Grewal & Dharwadkar, 2002](#)). Both mechanisms lead to “programmed actions” ([Berger & Luckmann, 1967, p. 75](#)) or “common responses to similar situations” ([Mead, 1934, p. 263](#)). “Imprinting refers to the maintenance of structures and processes that were codified in the early years of the organization's existence and have become sacrosanct because of reification and symbolism. Bypassing captures the process by which institutional expectations are defined in the larger cultural context, which reduces the need for well-articulated structures and processes.” ([Grewal & Dharwadkar, 2002, p. 88](#)). According to the literature, preferred entry modes are connected with strategic routines, organizational norms, or ceremonial artifacts ([Meyer & Rowan, 1977](#)). [Lu \(2002\)](#) also refers to the imprinting concept ([Stinchcombe, 1965](#)) and concludes that firms use a preferred mode rather than searching for alternative entry modes. [Yiu and Makino \(2002\)](#) refer to historical norms, arguing that if a firm attains legitimacy in host countries using a particular mode, the MNC will incorporate this successful experience into its cognitive structure. It seems that international retailers gain cognitive legitimacy through the imprinting of repeated mode choices that become strategic routines. Hence, habitualization supersedes the conscious awareness of decision makers and the entire firm, particularly in the long run ([Grewal & Dharwadkar, 2002](#)). In practice, the effects are described as follows: “... managers [...] justify actions with the claim that ‘we have always done it this way’, ‘everybody does it this way’ or ‘that’s just the way things are done around here’” ([Oliver, 1997, p. 699–700](#)).

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