Journal of International Management 17 (2011) 68–82

Contents lists available at ScienceDirect

Journal of International Management

Fox School of Business
TEMPLE UNIVERSITY®

# Institutional distance and the internationalization process: The case of mobile operators

Nicolai Pogrebnyakov [a,*], Carleen F. Maitland [b]

[a] Department of International Business and Management, Copenhagen Business School, Frederiksberg 2000, Denmark
[b] College of Information Sciences and Technology, The Pennsylvania State University, University Park, PA 16802, United States

ARTICLE INFO

Available online 26 January 2011

*Keywords:*
Internationalization
Foreign market entry
Institutional distance
Mobile operators
Survival analysis

ABSTRACT

This paper applies the institutional lens to the internationalization process model. It updates the concept of psychic distance in the model with a recently developed, theoretically grounded construct of institutional distance. Institutions are considered simultaneously at the national and industry levels. It also aims to understand whether the internationalization process of service firms is different from the behavior predicted by the model, which was developed for the manufacturing context. We empirically test the model using proportional hazard analysis with 130 instances of entry and presence of mobile operators in Europe and South America over 13 years. Influences of regulative, normative and cognitive institutional aspects were disaggregated and shown to have differing effect on internationalization. This suggests that institutional distance is a viable alternative to other distance measures used in the internationalization process research. The results also indicate that the internationalization behavior of this type of service firms might differ from the staged process predicted by the internationalization process model.



## 1. Introduction

The significance of institutions has been highlighted in the different aspects of organizational behavior (Scott, 1995). However, the question of how much they influence market choice of internationalizing firms remains largely unanswered. This facet of the internationalization process has grown drastically in significance. Only three decades ago market choice was not an issue of prime importance, since the majority of the world was either not accessible or not significant for multinational firms. Geopolitical changes combined with economic liberalization that occurred in many countries have dramatically increased the number of available markets for entry and the number of firms in the new markets vying to expand to the outside world. Thus, most countries today are both accessible and important markets, which brings the problem of market choice to the fore for the internationalizing firm (Fink et al., 2002). And with much attention devoted to institutions, it is remarkable how few studies have statistically examined their influence on internationalization over time.

Further, the number and value of cross-border market entries has grown remarkably in the past several decades. The opening of new markets has been paralleled by a structural shift in the world economy from manufacturing to services. With 70% of the world GDP accounted by services in 2007 (World Bank, 2009), many economies today are service-based. Many of the firms in the newly opened markets are in service industries, as is the majority of foreign direct investment: two-thirds of FDI is now in services (UNCTAD, 2004), and while this sector has experienced the most drastic decline during the crisis, it is also expected to drive the recovery in FDI (UNCTAD, 2009).

Much research has been dedicated to internationalizing firms. However, many of the existing theoretical frameworks were developed for the manufacturing sector, and the shift from manufacturing to services has been reflected in research to a lesser

* Corresponding author. Tel.: +45 3815 2332; fax: +45 3815 2500.
*E-mail addresses:* nicolaip@cbs.dk (N. Pogrebnyakov), cmaitland@ist.psu.edu (C.F. Maitland).

1075-4253/$ – see front matter 
doi:10.1016/j.intman.2010.12.003

extent (Coviello and Martin, 1999; Goerzen and Makino, 2007). At the same time, new understandings of the dynamics of organizational behavior have been proposed. One of such recent advances is the recognition of the role of institutions. The institutional perspective allows better understanding of how cultural beliefs, norms as well as formal rules influence the operation of organizations (Gooderham et al., 1999). The mutual influences of institutions and organizations on one another have been systematically investigated (DiMaggio and Powell, 1983). Furthermore, the separation of institutions into different levels, including world, societal, organizational and individual, have led to a recognition of the differing influences of institutions at each of these levels on organizations and other types of actors (Scott, 1995).

This paper has three objectives. First, it integrates the recently developed construct of institutional distance with insights from the internationalization process model. That construct has origins in institutional theory, which has been applied to many aspects of organizational behavior. Whether institutional distance affects behavior of internationalizing firms is as yet unclear.

Second, it contributes to statistical studies of internationalization research. Qualitative methodology in this domain allows to gain insight of motives or decision-making processes involved in internationalization. By contrast, quantitative examinations allows understanding of the “big picture” and observe larger-scale patterns of internationalization. However, statistical studies have been somewhat underrepresented in favor of qualitative studies (Barkema et al., 1996), and this paper is an attempt to bridge that gap.

Finally, it aims to enhance our understanding of internationalization of service firms. Its theoretical foundation is the internationalization process model, which was developed for the manufacturing sector and applied to services with mixed results. In particular, it asks whether firms in the mobile telecommunications industry, with its end product that has global appeal and little cross-country variation, are subject to learning experience when entering foreign markets as predicted by the model. This objective is timely and important because it addresses calls for thorough research of internationalization of service firms, of which there have been few studies (Cicic et al., 1999).

To address these objectives, we construct a Cox proportional hazards regression model using data on 130 instances of foreign entry and presence of mobile operators in 36 countries of Europe and South America over 13 years.

The study is set in the context of the mobile telecommunications industry. Mobile services have diffused across the globe faster than any previous technology (World Bank, 2008). Mobile telephony was used by over 60% of the world's population in 2008, up from a quarter five years before, and is projected to grow strongly despite the recent economic turmoil (International Telecommunications Union, 2009). However, while the use of mobile services is generally widespread, significant differences in demand and supply exist. On the demand side, countries vary in their levels of adoption (e.g., 50% in Moldova compared with 94% in France in 2008) and patterns of use (e.g., text messaging was until recently more widely used in Europe than in the United States). On the supply side, mobile operators are often national firms with investments from or in competition with foreign firms from a variety of countries. For example, in the U.S., Verizon Wireless, a domestic firm, is in fact a joint venture with the British firm Vodafone and competes against the German firm T-Mobile.

The paper is structured as follows. Section 2 reviews theoretical foundations, including the internationalization process model and institutional theory. Section 3 brings together these theoretical foundations and develops hypotheses. This is followed in Section 4 by the description of the methodology, data collection process and descriptive statistics of the data. Section 5 presents results, followed by a discussion in Section 6. Section 7 concludes the paper.

## 2. Background

With the number of foreign market entries by firms reaching unprecedented levels in the past decades, internationalization has received significant attention from researchers. Many theories applied to studies of internationalization consider this phenomenon as essentially static and explain differences between entry modes of firms at a specific time (Andersen, 1997). Such static theories include the internalization theory (Hymer, 1976), the eclectic paradigm (Dunning, 1980), transaction cost theory (Williamson, 1985) and a recently introduced born-global concept (Knight and Cavusgil, 1996). Most of these theories also focus predominantly on internal firm factors: firm environment is largely not considered as influencing its behavior. Furthermore, some of the more traditional theories, such as the product life cycle (Vernon, 1966), are well suited for manufacturing firms but do not reflect well the realities of today when services account for a much larger share of GDP than manufacturing, at least in developed countries (Axinn and Matthyssens, 2002).

### 2.1. Institutional theory and institutional distance

Institutional distance is rooted in one of the institutional traditions, that of Scott (1995). (See Peters (2005) for a review of different strands of institutional theory.) Scott views institutions as consisting of regulative, cognitive and normative components.

The *regulative* component of institutions reflects formal constraints in the form of rules and regulations that exist in the society (Scott, 1995). Examples of such formal constraints are laws, government regulations and policies that promote particular types of behavior. The *normative* component reflects norms and values that exist in a society, thus reflecting appropriate and desirable models of behavior, as well as specifying the way in which things are expected to be done (Scott, 1995). This component of institutions can thus manifest itself as a barrier to entry for operators due to the need of maintaining legitimacy in several institutional environments simultaneously, while norms are often neither externalized nor made readily available, especially to outsiders (Eden and Miller, 2004). The *cognitive* component is a reflection of shared beliefs and perceptions on what constitutes