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**THE ROLE OF INSTITUTIONALIZATION IN THE INTERNATIONALIZATION**

Bachelor's Thesis  
International business  
5 2017

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## **1 INTRODUCTION**

### **1.1 Research gap**

The thesis examines the existing literature in the internationalization of the companies. Theories that will be examined in the thesis will be learning approach, network approach, international new venture theory and institutionalization theory. I find a research gap there, since most of the theories are examining the internationalization by previously mentioned theories. However, I argue, that the role of the institutionalization and the institutional isomorphism, can provide more insight in the existing literature, combining the findings and focusing on the institutionalization aspect. Institutionalization can be seen present in the internationalization process as a vital enabler.

### **1.2 Purpose of the study, motivation and research questions**

The motivation of the thesis is that the world has become smaller and institutionalisms have had an impact in this development. The world has become smaller in sense, since trade unions have been established, fast communication systems have been introduced and the internet has increased its penetration exclusively(J. E. Vahlne & Johanson 2002). The business environment is changing due to the introduction of the internet (J. E. Vahlne & Johanson 2002). Internet provides wide range of possibilities, since time, distance, location and are no longer preventing companies for doing business (Ekström & Persson 1999, Mougat 1998). The business environment has changed, since value chain activities have changed, due to decreased need of intermediaries between the supplier and the end customer(J. E. Vahlne & Johanson 2002). The role of internet is significant and internet will keep expanding. Internet usage growth have been estimated to grow from 5.8 percent of people in Western Europe having an internet connection, and this is estimated to grow to 35 percent by the of the year 2002(J. E. Vahlne & Johanson 2002). More recent statistics show in the year 2017, that internet penetration in the European Union is 80.1 percentage of the population and 50.1 percentage penetration in the total population of the globe(*Internet usage in the european union*.2016).

I suggest that since the world has become smaller in a sense, the role of the institutionalization has increased, since the new business opportunities and cross boarder deals require more coordination and business opportunities and cross boarder deals have become more complex due to many counterparts. Also, due to the increased role of institutions that control the global trade, institutions provide companies a possibility to become a part of the business network. However, becoming a member and to be accepted by the institutions and the counterparts, the organization must assign its behaviour. Also, institutionalism might speed up the internationalization process and reduce uncertainty. This bachelor's thesis is aiming to find an answer to following research questions: What is the role of the institutionalisation in the internationalization of the companies? How does the institutionalization effects on the internationalization? The purpose is to study existing literature and provide discussion on this subject.

The existing theories of internationalization describe the process of internationalization using the learning theory, where the organization's learning and foreign expansion and foreign asset commitment is expected to be straight forward, indicating that when organization goes through specific phases and increases the commitment, for example by starting to operate via an agent and finally establishing an own sales and manufacturing unit to the foreign location(Johanson, J. & Vahlne, J E 1977, Johanson, J. & Vahlne, J. E. 2009). Network approach relies on the importance of the networks in the foreign operations, and highlights that establishing relationships in the network require significant investments in the name of time, money and trust(Johansson & Mattson 1988). New venture theory sees the international process differently than the learning theory. It states that there are organizations, that are global from the establishment and these organization can overlook the step by step foreign expansion(Oviatt & McDougall 1994). Finally, the institutional theory explains organizational change using the concept of social isomorphism, where organizations become more homogenous(DiMaggio, P. & Powell, W. 1983).

### **1.3 Methodology and research methods**

The methods in this bachelor's thesis are literature review. The fundamental purpose of a literature review is to examine the current literature and to develop an own theoretical model based on the existing literature. One other purpose of a literature review is to evaluate the existing theories. Also, a literature review aims to build up a holistic picture and views of the studied issue and determine problems and focus on historical development of the theories as well. The word literature review, refers to a process, where the existing literature is evaluated and analyzed, not just summarized. (Salminen 2001)

The purpose of the study is to get familiar with the existing literature and theories of learning theory-, network theory-, new venture theory and institutional theory of internationalization. All theories are introduced and the main findings and propositions of the theories are explained in the theory chapter. After reading and examining the current literature, the theories are analyzed in contrast to institutionalization theory and some critique and discussion will be presented. The purpose is to create more holistic view of the internationalization process, and issue, that there are many factors involved and highlight the role of the institutionalization and isomorphism as an enabler in the process. The articles that have been used in the thesis, are from top business journals by authors that have given significant contribution to international business theories and sociology theories. Most of the articles are one of the most cited articles in the field. The articles are divided into four categories, that are learning theory of internationalization, network theory of internationalization, new venture theory of internationalization and institutional theory of internationalization.

### **1.4 Structure**

This bachelor's thesis is focusing on the internationalization process of companies. A literature review is done regarding the existing theories, that explain why and how companies start their internationalization. The reviewed theories are the learning-, the network-, the new venture- and the institutional theory of internationalization. The aim of the study is to construct a holistic framework, which investigates the

existing theories in the institutional perspective, and aims to support and discuss the previous findings of the existing theories.

The structure of the thesis is following. First, the research methods are described, and how the data is collected. The thesis is based on the literature review and the main purpose of a literature review is presented. Second, the theories are introduced and explained briefly focusing on the main implications of each of the theory. The theories in question are the learning theory, the network theory, the new venture theory and the institutionalization theory. Third, the existing research is implemented to a holistic concept and a discussion is created. The discussion will be based on the existing theories and findings provided by the researchers. In this chapter, I also state my own opinions and thoughts based on the literature that I have been using, and the purpose is to create a holistic view of the internationalization process, highlighting the role of institutionalism. Fourth, conclusion will be made and suggestions for future research agendas are assigned. The limitations of the thesis are discussed accordingly. The main limitation of the thesis is, that is solely focusing on the existing literature and is not contributing an own case study or equivalent proof of the emerging ideas. The future research then may test the ideas presented in the paper.

## **2 INTERNATIONALIZATION THEORIES**

This chapter introduces four theories that have been explaining the internationalization of companies. These theories are learning-, network-, new venture- and institutional theory of organization. The chapter is describing each four theories in detail in separate sub chapters. In the chapter 3, current findings of the existing literature are integrated, and the aim is to analyse the existing theories and create an own framework and provide possible research directions to the future research. The purpose of the study, is to stress the importance of institutional theory, as an enabler in the foreign expansion. The analysis is solely based on the literature review.

### **2.1 Learning theory of internationalization**

This subchapter introduces the learning theory of internationalization. Learning theory of internationalization argues that organization learn by doing and after learning, more resources are committed to the international operations and cross border actions (Johanson, J. & Vahlne, J E 1977, Johanson, J. & Vahlne, J. E. 2009).

#### **2.1.1 Uppsala model**

The learning theory of internationalization seeks to find understanding, how organizations acquire, integrate and use the knowledge of foreign markets. The model assumes that the lack of information of foreign markets, is the main obstacle for the foreign operations. The model suggests though, that this information can be acquired through foreign operations. (Johanson, J. & Vahlne, J E 1977)

Firms usually start international operations by starting exporting via an agent and then establishing sales subsidiaries and at some point, establishing production centres and factories in the host country. The learning model of internationalization is a dynamic model, which refers to fact, that one cycle of events determines the input to the next event.(Johanson, J. & Vahlne, J E 1977)



The basic mechanism of internationalization is state and changes aspects. Market knowledge leads to commitment decisions and current activities lead to market commitment. (Johanson, J. & Vahlne, J E 1977) The model assumes that firms are seeking for long term profits, and according to Williamson (1966), the growth is determinant of the long-term profitability (J. Williamson 1966). The state aspects of the model are market commitment and knowledge of foreign markets. Market commitment refers to issue how much resources are committed to the market and what is the degree of the market commitment. The degree of market commitment is how easy or difficult it is to transfer the resources to another market, and how easy or difficult it is to find alternative use for the resources. The market commitment is higher the more specialized the products are. The market commitment refers to the investment size of the market in general. (Johanson, J. & Vahlne, J E 1977)

Market knowledge is the knowledge of the market. This knowledge effects on the decisions that are made. Experiential knowledge can be acquired through experience, and it is difficult to acquire. This experiential knowledge can be used in participating into concrete opportunities. The knowledge can be divided into general- and market-specific knowledge. Market knowledge and market commitment are directly related to each other. The more knowledge one has about the markets, the more specified commitments can be made, thus, more valuable resources are committed to the markets and the market commitment increases.(Johanson, J. & Vahlne, J E 1977)

Companies can gain experience through current activities. Current activities are one of the change aspects. An employee who is working among marketing activities, must have experience of the market and the company. This can be maximized by using a representative who has been working for the exporter, that already has knowledge of the company and the market. If the activities of the company are more product- orientated, it is easier to substitute the employee.(Johanson, J. & Vahlne, J E 1977)

Commitment decisions regarding the resource commitment decisions to foreign markets is the second change aspect. Decisions are made based on the opportunities and problems that have occurred or will occur in the market. When operations in the market identify problems, the organization seeks for alternative operations and find

alternative solutions. This leads to increased market commitment, since they extend the current operations. Organization can find alternative opportunities and new opportunities by individuals who are working the organizations, and from individuals who the organization engage in business with. (Johanson, J. & Vahlne, J E 1977)

### 2.1.2 Uppsala model revisited

The revisited model has been updated from the original Uppsala model that was published in 1977. The importance of networks must be considered (Johanson, J. & Vahlne, J. E. 2009). Firms develop relationships in processes where both parties learn interactively and give a mutual commitment to the existing relationship (Anderson & Weitz 1992, Blankenburg Holm et al. 1999). The original model didn't consider this aspect and the new model assumes that internationalization requires commitment in the network among the participants (Johanson, J. & Vahlne, J. E. 2009). Previously the main assumption has been, that the uncertainty reduction focuses on the reduction of cultural and institutional differences in the target countries, however, now it can be seen that firms learn and commit to explore new opportunities (J. Johanson & Vahlne 2006).

The liability of foreignness indicates that when the physic distance of the countries is high, it is more difficult for the companies to establish new relationships. The knowledge creation emerges from the business relationships between the counterparts. The success depends on the networks. Companies that are left out from the networks and relationships can be labelled as outsiders. (Johanson, J. & Vahlne, J. E. 2009)

As the original model suggested that companies learn by doing, and by the experience, they acquire more skills and knowledge. The model assumed that general market knowledge can be transferred between the organizations (Johanson, J. & Vahlne, J. E. 2009), but the new view takes the general internationalization knowledge emerges and has many sources (Chang 1995, Hoang & Rothaermel 2005, Nadolska & Barkema 2007, Padmanabhan & Cho 1999, Sapienza et al. 2006), which stresses the importance of specific kind of knowledge of the internationalization, not just the market knowledge (Johanson, J. & Vahlne, J. E. 2009). Anyhow, the

experimental learning is still included in the model as a basic mechanism, since it seems to be a cumulative process (Johanson, J. & Vahlne, J. E. 2009).

Trust and commitment building should be included into the new model in the sense of emotional relationships. Trust being a prerequisite for commitment and if trust is achieved it leads to continuing the relationship. (Johanson, J. & Vahlne, J. E. 2009) When trust and commitment both can be found in the relationship, it leads to efficiency and productivity (Morgan & Hunt 1994). Opportunity development has two dimensions in its processes, that are discovery and creation. This opportunity creation and research can be seen in two stages that are recognition and exploitation. Opportunities develop through increased learning and commitment, where the trust aspect can be seen promoting the commitment. (Johanson, J. & Vahlne, J. E. 2009)

The original Uppsala model has been focusing on the reduction of risk and avoidance of risk. However, the updated Uppsala model issues that networks play a crucial role in the internationalisation, since the business opportunities emerge from ongoing business activities in the network. The role of insidership is important, since the markets are heterogeneous and the information that is acquired and possessed by the insiders, is difficult for the outsiders to reach for the market opportunities. (Johanson J. & Mattsson L.G. 1988)

The internationalization process of the companies has also changed, and companies do not expand only to countries where physical distance is low and afterwards expand to other markets. The correlation between the physical distance and the foreign country entrance has reduced. Anyhow, the process of learning and commitment building takes time and learning and commitment occur in the relationships. (Johanson, J. & Vahlne, J. E. 2009) The model, thus, does not deny the rapid international expansion, it only requires time-efficient time for relationship building and learning (Vahlne, J. E. & Johanson, J. 2002). As mentioned, the current relationships allow companies to exploit opportunities, which has a geographical and entry mode impact on the targeted markets. Business environment has changed since the last model, but it remains the same that companies must learn, develop and strengthen relationships to discover opportunities (Johanson, J. & Vahlne, J. E. 2009).

The new model has learning, creating and trust building as change aspects that affect in the state aspect which refers to the network position. Other state is knowledge and opportunities which lead to change aspects such as relationship commitment decision. Companies use knowledge and opportunities to make the relationship commitment decisions and learning, creating and trust building effect on the network position. (Johanson, J. & Vahlne, J. E. 2009)

## **2.2 Network theory of internationalization**

This chapter introduces the network theory of internationalization. Network theory of internationalization argues that organizations must develop relationships in the network to become an insider of the network (Johansson & Mattson 1988). Somehow the learning theory and the network theory can be seen each other's supplement. The revisited Uppsala model argues and highlights the role of the relationships to exploit new opportunities (Johanson, J. & Vahlne, J. E. 2009). Some critique form researchers will be brought up, since the network theory was written in 1988.

### **2.2.1 Intensity of local linkages and foreign direct investments**

Regarding the network of an organization, relational capital determines independent business relationships. These relationships reduce the transaction costs and promote knowledge sharing, thus mutual understanding of the business environment. (Chen et al. 2004) Foreign direct investments are established to manage the relationships in the business network, within and outside of the company borders (Holm et al. 1996). Foreign direct investments are always expensive, and these operations are only executed, if the host country provides resources that are not available at the home country (Chen et al. 2004).

The intensity of local linkages depends in the foreign subsidiary depend on four major issues; on the location of the foreign direct investment, entry mode, firm size and the nature of production network. The study found that investors will invest more to local relationships in foreign location if the resources are heterogenous and inimitable. The strategic importance of the resources lead to more frequent establishment of local linkages than non-strategic resources. Also, strategic

connections are important in the, because investors will undertake more local linkages if the host country offers strategic resources, not only basic resources and the investment mode will be more likely a joint venture rather than a wholly owned subsidiary in the presence of strategically important resources. The internationalization of the local network in the host country leads to establishing more local linkages in the host country by the investor and if the host country is not very internationalized the more important the role of the third parties is in establishing the local connections. The position in the supply chain matters in the investors decisions, since if the company is involved in producer driven commodity chain, it will invest more into local linkages than if it was part of a buyer- driven commodity chain. The size of the investors has an impact on the risk taking and higher level linkage, because larger investors tend to choose more risky options. Local linkages are also more difficult to gain in less internationalized countries, and companies require the assistance of a third party to do so and if the company is small, it will rely even more on the assistance of a third party. Also, when the entry mode is chosen to be a joint venture, the assistance of a third party is more important, than if the operational mode was a wholly owned subsidiary. (Chen et al. 2004)

### 2.2.2 Internationalization in industrial systems

The network theory of internationalization examines the relevance and importance of the networks in the business environments. As an example, the long-term relationship between the supplier and buyers contribute to the learning of the needs of the customer and the counterpart. The relationships are complex and they take time to be established, since the experience is the only way to increase the knowledge. (Johansson & Mattson 1988) Network theory has become the leading and dominant framework, gaining acceptance in research of the roles in the relationship, thus the internationalization of the firm and the model focuses in explain and describing the internationalization(M. Johanson & Kao 2012).

Firms are dependent on each other in the industrial systems where production, distribution and the use of the merchandise and services are connected. There exist long term relationships between the firms. It is typical that the relationships are stable and changing. The most changes in the relationships occur in the beginning or

in the early phases of the operations. Organizations are constantly putting effort to existing relationships and bonds are created. However, the relationships are complex and difficult to observe. (Johansson & Mattson 1988)

Firms can be positioned in the network in micro and macro positions. It typical for the industrial relationships that the activities are in cumulative process. The micro position is the position that the company has with a specific counterpart and the macro position is position that the company has in the whole network or in one specified part of it. More precisely, micro position can be characterised as “The role the firm has to another firm, its importance to another firm and the strength of the relationship with the other firm” (Johansson & Mattson 1988). Macro position can be described as “the identity of the other firms with which the firm has direct relationships direct relations in the network, the role of the firm in the network, the importance of the firm in the network and the strength of the relationships with the other firms” (Johansson & Mattson 1988). However, the macro position is not accumulation of the micro positions. (Johansson & Mattson 1988)

Firms can be labelled in four different categories regarding the degree of internationalization of the market and degree of internationalization of the firm. The internationalization of production net concerns complementary and competition activities in the product areas. It also concerns the number and the strength of the relationships between different counterparts. Internationalization of the firm is the positions in the national nets. There are three ways to develop and establish the current position such as extension, penetration and integration. (Johansson & Mattson 1988)

Early starter has little knowledge of the markets and adaptation to the markets is usually done by an agent, that can provide information and experience due to the inexperience of the early starter. Early starter has lack of position in a market and an introducer, for example and agent, can provide possibilities for expansion if the introducer is well connected. Foreign direct investment can take also place. There might occur some problems, since the production capacity might not be big enough to full fill the required orders made by the counterparts of the network. (Johansson & Mattson 1988)

When the company becomes more internationalized, it becomes the lonely international. The company has already established networks and connections in the foreign market and the knowledge has increased, but the customers and competitors are not international at this point. The firm has acquired information to be able to do business in different environments, regarding the cultural differences and institutional differences. International expansion is easier for the company, than for the companies that are not in the tightly structured nets. The firm can combine resources that it has developed in the network position. These resources can be used for rapid expansion or to hinder down competitors access to the markets. Lonely internationals can promote the internationalization of the production net. (Johansson & Mattson 1988)

The late starter is a firm that is pulled to international markets. The late starter's customers and competitors are international, accessing the late starter to indirect relations to the foreign networks big projects can pull the late starter to the international markets and the investments that are in the domestic market can be used as a benefit. The nearby markets might be occupied already by the competitors, so the company might take larger steps and expand to more far markets. Smaller companies should consider focusing establishing sales subsidiaries in the country in question, since the requirements for co-ordinating are high. Also, considering specialization is required. Larger companies are less focused on small product category and typically joint venture or acquisition is used as a foreign operation method. Finding a niche market is difficult for larger firms. The knowledge of the markets is more limited than the competitors market knowledge. The timing of entering the market is crucial, since late starter has limited ability to influence the markets, compared to early starter. (Johansson & Mattson 1988)

The international among others uses the current network position to penetrate the market and expand. The establishment of sales units is typical for international among others. The production net is highly internationalized as the markets, and investment to another market might be used as bridges to expanding to another market areas. Foreign operation modes used are acquisitions, mergers and cooperation. (Johansson & Mattson 1988)

When a new company tries to establish a position in the network is difficult because of the stable long term existing relationships. The role of the network is crucial, since the expected gains of the mergers and acquisitions usually fail and it's difficult for the company to establish a new position. The cross-border actions regarding the mergers and acquisitions should be considered, since the connectiveness between companies requires different kind of knowledge, because the target company can have a great distance in terms of physic, cultural and geographic distance. It has to be remembered, that when companies do merging and acquiring activities, the activities effect on the whole network and the relationships connected in the relationship, not just affecting on the direct relationship of the two merging counterparts. (Havila, V. & Salmi, A. 2002)

### **2.3 New venture theory of internationalization**

This chapter will discuss and introduce the main ideas and findings of the new venture theory of internationalization.

#### **2.3.1 International new ventures**

International new ventures that are international from the inception are more important than ever in understanding the characteristics of multinational enterprises. The theory examines the multinational new ventures from inception in four different elements, organizational formulation through internationalization of some transactions, strong reliance on governance structures, foreign location advantages and control of unique resources.(Oviatt & McDougall 1994)

According to (Oviatt & McDougall 1994) there are four necessary and sufficient elements for sustainable international ventures. Internationalization of some transactions means that the ownership of assets is not a defining characteristic of MNE or international new venture(Casson 1982). Alternative governance structures New ventures usually control ownership through smaller ownership percentage than mature organizations.(Oviatt & McDougall 1994) They also mention, that according to Williamson (1991) hybrid structures, licensing and franchising can be a good way to control assets internally and externally(Williamson 1991). Foreign location



advantage refers to the advantage that is found in foreign market locations.(Oviatt & McDougall 1994) By this, they refer to (Dunning 1981) who mentions firm advantage to be based on advantage of transferring moveable resources that can be moved to another nations' and be combined with immobile or less mobile resources and opportunities. Traditional multinational enterprises have based their international operations on scale advantages, but international new ventures don't have such an advantage(Oviatt & McDougall 1994). Unique resources are the only key for sustainable competitive advantage. New international ventures are based on knowledge, but the knowledge is relatively difficult to kept in secrete. There are four sufficient ways to do so. Firstly, International new ventures can use patents and copyrights. Secondly, unique organizational history cannot be copied, with the socially complex knowledge. Thirdly, sustained competitive advantage can be protected by licensing, since these can control the pricing. Fourthly, network governance structures can give sustained competitive advantage through alliances multinational business knowledge provided by the managers. (Oviatt & McDougall 1994)

### 2.3.2 Types of new international ventures

Types of international new ventures are new international market makers, geographically focused start-ups, global start-ups. New international market makers export and import goods where there is demand. The most essential value chain activity is related to logistics. The location advantage can be based on realizing emerging opportunities before others, knowledge of the market and the suppliers and maintain and attract loyal business networks. There are few coordinated activities across the countries and few countries involved. Its rather typical for international market makers to seek constantly new cross border opportunities. These can be export/import start-ups or multinational traders. Multinational traders have more countries involved in the operations. (Oviatt & McDougall 1994)

Geographically focused start-ups seek for a specialized market and provide them satisfaction through foreign resources. The difference to international market makers is that geographically focused start-ups are geographically focusing on one market and on the other hand the difference to import export start-ups is that it has more

coordinated and many value chain activities in many countries. (Oviatt & McDougall 1994)

Global start-ups have unlimited geographical scope and they deal with multiple value chain activities across countries. These international new ventures are the most difficult to establish, since these operations require geographical and activity control. There is also an upper side, if this venture can be established, it will have a sustainable competitive advantage, due to complex structures and networks and history. (Oviatt & McDougall 1994)

## **2.4 Institutional theory of internationalization**

Institutionalization can have three different forms that are cognitive, normative and regulatory. The institutions integrate these three dimension in institutionalization context. (Scott 1995) Institutionalization can also occur from three isomorphic changes that are normative, coercive and mimetic isomorphism (DiMaggio, P. & Powell, W. 1983). This chapter introduces the theory of institutionalism through the isomorphism and legitimacy.

De-regularization and liberalization of international business has changed the business environment in a sense that companies focus on their own goals rather than rules provided by the government. The local government is not directly giving the rules, but the organization must cope with the indirect rules and norms to satisfy the social norms and interests created by the public. This means that the companies must go beyond the direct norms that are issued by the government and focus more on satisfying the public and participate in the corporation social responsibility. Companies must consider how their actions look in the social norms created by the public. The company must match to pressures and requirements that the environment requires from it. (Jansson 2002)

### **2.4.1 Isomorphic change**

Institutional theory of internationalization explains how organizations become more similar through coercive, mimetic and isomorphic change. Competitive market place

has changed due to bureaucracy and rationalization. A paradox can be found, when organizations change through the above-mentioned changes. (DiMaggio, P. & Powell, W. 1983)

Bureaucratization is a common organizational form and organizations are becoming more homogenous. Organizations tend to become similar, by bureaucratic processes, without considering the aspect of becoming more efficient. The competition or requirement for efficiency doesn't seem to be the reason for the change. (DiMaggio, P. & Powell, W. 1983)

Institutional isomorphism occurs when organizations become more homogenous (DiMaggio, P. & Powell, W. 1983). According to Hawley, "isomorphism is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions." (Hawley 1968) (Meyer & Michael 1979) and (Fennel 1980) have identified two different types of isomorphism that can be labelled as competitive and institutional isomorphism. Competitive isomorphism is more important in fields that have free competition (DiMaggio, P. & Powell, W. 1983).

The institutional isomorphism can be divided into three different mechanisms of the change. These change mechanisms are coercive isomorphism, mimetic isomorphism and normative isomorphism. Organizations compete on political power, institutional legitimacy to get improve the social and economic standpoint. In another word, organizations don't compete only for resources and customers. (DiMaggio, P. & Powell, W. 1983)

#### 2.4.2 Isomorphism

Coercive isomorphism explains the formal and informal pressures by other organizations that the organization is expected to fulfill. Organizations become more heterogenous, since they are confronting the wider organizations, that have organized the rituals. These can be informal and formal standards that are required by another institution and rituals to wider institutions. Political pressures can move organization to coercive isomorphism, for example if the government issues a manufacturer to

adopt new pollution control systems. A common legal environment forces the organization to adapt to the procedures such as financial reporting obligations, budget cycles and annual reports. Organizations can face coercive isomorphism also in less obvious ways. (DiMaggio, P. & Powell, W. 1983) Organizations might adapt and change their practices to get donations from hieratically organized organizations(Milofsky 1981).

Mimetic isomorphism refers to change that occurs due to uncertainty. Uncertainty encourages organizations to imitate others.(DiMaggio, P. & Powell, W. 1983) This evolves through technologies that are not well understood(March & Olsen 1976), and when the organization has vague goals for the future and when the environmental uncertainty occurs, these organizations might reflect themselves to other organizations and change to similar way due to symbolic uncertainty(DiMaggio, P. & Powell, W. 1983). Innovation can lead to mimetic behavior, since, another organizations constantly innovate and others try to copy these innovations leading to innovation- imitation process, which continues and continues(Alchian 1950). Organizations that are entering new nation, where the organization has no previous knowledge, these peripheral nations are extreme isomorphic in terms of administrative and economic form(Meyer 1981).

Normative isomorphism rises from professionalization(DiMaggio, P. & Powell, W. 1983). The professionals define their work by the occupation and determine the working methods(Collins 1979, Larsson 1977). Professionals portray similarities within the organizations and professional power is created and assigned by the professional activities. Isomorphism occurs through two professionalization aspect that are formal education and elaboration of professional networks. By filtering personnel, hiring focuses on individuals that have similar backgrounds and requirements which leads to normative isomorphism. (DiMaggio, P. & Powell, W. 1983)

The study became to following conclusions by testing hypothesis on organizational level. Companies tend to become more similar if they are dependent on another organization, the resource supply is centralized, the relationship is uncertain, the more ambiguous the goal is, the recruitment process is based on academic approvals

and when the managers participate in trade unions and professional associations. Business entities become also more similar on the field level, when the organizations that they are having transactions with are similar organizations, the organization do not have other alternatives on the field, organizations are uncertain with the technologies used and the goals attained, if professionalization is present on the field among the companies and the more structuration is present. (DiMaggio, P. & Powell, W. 1983)

### 2.4.3 Legitimacy

Institutionalization is defined as rules and procedures applied by the social community. Multinational companies must adapt to the requirements that control the behaviour in the foreign location, to micro-, meso- and macro institutions. Common rules, styles and norms are shared among the competitors, customers and suppliers. Different institutions have different rules. Organizations can be supported by the government, and might gain economic, political or ideological support.(Jansson 2002) This legitimacy is labelled as pragmatic(Suchman 1995). Organization can gain pragmatic legitimacy(Suchman 1995),which means that the organization's activities are evaluated by social norms, and the company signal to the society, that it is acting accordingly(Jansson 2002).

Organizations must use three different types of legitimacy towards the government, that are regulative and procedural legitimacy, technical legitimacy and social legitimacy. Regulative legitimacy concerns the legislative issues required by the government and governments can pose approvals to the organizations, if they act accordingly. Technical legitimacy is focused on the behavioural aspect of the companies, how much do they promote and issue technical development leading to market efficiency for the host country. Social legitimacy is concerned about the moral sides of the company and how it promoted the social need to the society. Institutions create different frameworks for businesses in different locations.(Jansson 2002)

The industry might have institutional constraints for the growth. It depends on how much the actions are tolerated by the public. This implies that the managers must

develop a good relationship with the institutional level, such as trust building activities and reliability enhancing. This process leads to a position, where the manager is not working isolated anymore, but in trade organisations and cooperative alliances to gain the institutional legitimacy. It has been found, that the industries that develop relationships with educational curricula, can develop cognitive legitimacy quicker. Also, organizations that participate in politics such as lobbying will be more likely to gain socio-political approval faster than organizations that do not participate in these activities. (Aldrich & Fiol 1994)

### **3 ANALYZING THE LITERATURE**

In this chapter, previous theories of internationalization are analysed to and institutionalization theory of internationalization is integrated into the existing theories and discussion is created. The purpose of the chapter is to explore, what is the role of institutionalization in the existing theories and is institutionalization able to provide possible benefits for companies targeting the foreign markets. The initial research question was, what is the role of institutionalization in internationalization.

In my opinion, all the existing theories have parts and features that fit into the institutionalization theory and the isomorphic change. The next chapter is aiming to gain a deeper understanding of the existing internationalization theories, and aiming to explain and expand the theoretical approaches by adding additional thoughts from the institutionalization theory and my own thoughts. The institutionalization is an enabler in the internationalization process in my opinion. The purpose of the chapter is to evoke conversation, and provide suggested future research agenda.

#### **3.1 Learning approach**

In my opinion, it is easier to commit to the markets, due to the isomorphism, since the organizations have a clearer overview of the current state, procedures and requirements of the international markets. Organizations are aware what is expected from them to make a successful foreign expansion. On the other hand, if the organization comes from different back ground and aims to internationalize to a location, where the procedures are different, it might face problems. The physic distance has been discussed to have an impact in the choice of the host country in question(Johanson, J. & Vahlne, J E 1977). I argue, that isomorphism can promote or hinder the internationalization process due to this physic distance in terms of institutionalization. Companies can also promote the social aspect by the social responsibility, where corporate can be socially responsible by raising ethical standards, promoting health and safety and making investment in education.(The prince of wales business leaders forum,responsible business in the global economy.1998, Pava & Krausz 1997) In this sense, when the norms and the requirements for internationalization are widely known, organizations can move

straight to the foreign locations, if companies are aware of the requirements and possibly make the public and the government support the new activities in the new host country. Companies might know, what is expected from them. Also, when companies have become more similar, it is easier to adapt to required procedures and the learning process of the new location is easier to execute.

### 3.1.1 The lack of knowledge

As the learning theory suggest, companies learn by doing and the major obstacle for international expansion, is the lack of the knowledge of the country in question. That's why companies start to operate traditionally, via an agent and as the market knowledge increases, more resources are committed to the foreign location, for example by establishing a sales subsidiary and then starting a local production. The expansion is usually done to the countries, that have relatively small physic distance. (Johanson, J. & Vahlne, J E 1977) The institutional theory of internationalization argues, that organizations tend to become more similar, because of the isomorphic change, that occurs on three different levels, that are coercive, mimetic and normative isomorphism (DiMaggio, P. & Powell, W. 1983). In a way, organizations have a clearer picture of what is demanded from them, since, according to Jansson (2002), organizations face three different kinds of legitimacy to face the government, that are regulative and procedural legitimacy, technical legitimacy and social legitimacy (Jansson 2002). This suggest in my opinion that organization are better informed, what kind of legislative requirements are required, what kind of technical requirement are required and what the public is demanding. In my opinion, organization must learn the required actions. Also, organization learning must be done carefully regarding the existing business environment to grow. The industry might have institutional constraints for the growth and it depends on how much the actions are tolerated by the public(Aldrich & Fiol 1994). This might indicate, is the company providing more wealth distribution to the host country.

I suggest that when organizations are planning a foreign expansion, the institutionalization can offer a potential benefit and potential obstacle, to do so. Mimetic isomorphism explains that organizations become more similar, because they adapt to procedures that are used by successful companies(DiMaggio, P. & Powell,



W. 1983). This might indicate that companies rely on existing foreign expansion methods, since they have found them to be successful, and skip some of the learning phases and start the actual business faster.

Coercive change argues, that organizations become more similar, due to legislative pressures and political decision where the common legal environment has created such standards(DiMaggio, P. & Powell, W. 1983). Companies seek to expand to countries with relatively low physic distance (Johanson, J. & Vahlne, J E 1977) , and this might relate to this fact, that in these locations the existing procedures created by the institutions, are easier to follow, and the company must not re- organize its procedures and learnt actions. Organizations face three different kinds of legitimacy towards the government, that are procedural and legislative, technical and social(Jansson 2002). Organizations must gain legitimacy that is required by the public and the government, such as creating jobs, support technical development and fulfil the requirements opposed by the government in order to gain acceptance and support (Jansson 2002.) Companies that create linkages with the local educational curricula and organize marketing and lobbying activities will gain cognitive and socio-political legitimacy faster than the others(Aldrich & Fiol 1994). This, thus can promote the learning process of internationalization, since the organization comes closer to the surrounding environment.

Normative isomorphism argues that it emerges from two aspects that are formal education and elaboration of the professional networks where individuals have similar backgrounds (DiMaggio, P. & Powell, W. 1983). Professionals determine their work by occupation (Collins 1979, Larsson 1977). The more the employee process is based on academic credentials the more homogenous the organizations will become(DiMaggio, P. & Powell, W. 1983). Organizations might benefit from this in the internationalization process in following ways. First, the learning theory highlights the importance of market knowledge, experience and commitment, and argues that organizations learning leads to committing resources(Johanson, J. & Vahlne, J E 1977), organizations that have professionalised structure and employees, have more competence and firms can commit more resources and build trust. Secondly, organizations that are abroad and targeted in the foreign direct investments or in some form of internationalization, might rank the potential partner higher, and

increase the commitment in the both sides, if the initial professionalization requirements such as degrees have been portrayed by the organization. Market knowledge leads to commitment decisions and current activities lead to market commitment. (Johanson, J. & Vahlne, J E 1977). Which indicates that thirdly, the professionalization increases market knowledge due to education and thus leads to increased market commitment. Also, when professionalization and structuralization is present, organizations become more similar (DiMaggio, P. & Powell, W. 1983). This indicates in my opinion that companies can easier obtain the required issues and if the company has a background that fits in to the environment on this aspect professional and structural aspect, it will have easier times to adapt to the new host country.

### 3.1.2 Trust and commitment building

Trust and commitment building are not based on the formal agreements, but on existing business relationships. (Johanson, J. & Vahlne, J. E. 2009) I agree, and argue that institutionalization, as in terms of formal agreements, can reduce the uncertainty, and reduce the barriers, to start a mutual business activities and develop trust and commitment in this relationship. Also, it has been found, that organizations that gain pragmatic legitimacy, will be supported by the government and might also gain economic, political and ideological support (Jansson 2002). Also, mimetic, coercive and normative isomorphism by (DiMaggio, P. & Powell, W. 1983) can lower, the barriers in the internationalization in following ways. First, the mimetic isomorphism makes the organizations similar, since they have ambiguous targets and they rely on procedures and try to become similar with successful organizations (DiMaggio, P. & Powell, W. 1983). I argue, that when organizations tend to become similar, and have similar procedures, it reduces the uncertainty and promotes the change to exploit new opportunities, since existing procedures and models have been recognised successful which promotes commitment and trust building. In a way, one step of learning can be overcome, by following an already established patterns and actions.

Coercive isomorphism is a process, where organizations become heterogenous by forces from the outside such as political and legislative pressures (DiMaggio, P. &

Powell, W. 1983). I argue, that these pressures and forces, can promote the knowledge and opportunities mentioned by (Johanson, J. & Vahlne, J. E. 2009), since, the required procedures such as pollution standards and such are already available, and the company has knowledge already. The company is aware what is required to build trust and commitment. Also, as a country wide perspective, European Union conditions for a membership require that a country will “complying with all the EU's standards and rules, having the consent of the EU institutions and EU member states and having the consent of their citizens – as expressed through approval in their national parliament or by referendum.”(*European neighbourhood policy and enlargement negotiations*.2016). If a country meets these standards, in my opinion it can be a benefit, since the companies in the given country can become part of the European Union, which allows to exploit opportunities in my opinion. For example, Sweden’s participation in the European union has increased the internationalization of the companies(J. E. Vahlne & Johanson 2002). However, unions and associations might be an obstacle for companies, that come from locations that do not full fill the requirements and cannot become a member, so these companies must start the learning process from the beginning in a sense.

Normative isomorphism, the role of professionalization becomes important by in the name of titles, qualifications and professionalization(DiMaggio, P. & Powell, W. 1983). I see, that learning, creating and trust building by (Johanson, J. & Vahlne, J. E. 2009), which effects on the network position(Johanson, J. & Vahlne, J. E. 2009), can become easier, because the professionalization, allows the companies to have similar standards and similar background in terms of individual learning as education and professions, which allows to become a member of a network in my opinion. The actual learning, that have been stressed by (Johanson, J. & Vahlne, J E 1977) , can be seen in my opinion, more like an individual learning, and while the organization consists of individuals that have similar capabilities, it enables the organization to learn as a whole, and allow to exploit opportunities. Also, experience is gained through current activities and for example a sales representative has gained knowledge of the markets(Johanson, J. & Vahlne, J E 1977).

### 3.1.3 Uppsala revisited model

The revisited Uppsala model, however, argues that the original model has been focusing on the reduction of the uncertainties of cultural and institutional differences in the target country, but the revisited theory suggest that firms learn and commit to explore new opportunities. (J. Johanson & Vahlne 2006) Vahlne 2006 For the reasons that have been discussed in this chapter, I argue that the emergence of the institutionalization can do both, and I agree with Johansson and Vahlne, but reduce the uncertainties, but also the institutionalization and the isomorphic changes allow the companies to reduce the physic distance in the first place and this allows the firms to commit resources and learn. The correlation between the physic distance and the foreign expansion has reduced(Johanson, J. & Vahlne, J. E. 2009). I suggest that it can be somehow be explained by the institutionalization, since when the organizations become similar, they end up developing mutual relationships and networks, which promotes and expands the network, which increases the required knowledge. states However, cultural differences are diminishing (Levitt 1983). Also, Johansson and Vahlne (2002) introduce a term “the global village” which refers to easy access to resources, information while the location plays less important role(J. E. Vahlne & Johanson 2002). I suggest that institutionalization is one factor enabling for the formation of global village and due to institutionalism, the cultural differences have diminished.

The mimetic behaviour can be seen, in a way, why the companies adapt to pre-determined steps, that are suggested by the learning theory. It is easy to follow, the procedures that another successful companies have overcome, since institutionalization theory by (DiMaggio, P. & Powell, W. 1983) suggest that mimetic behaviour is adapted in situations where the goals are ambiguous and the environment is uncertain. Meyer states that oorganizations that are entering new nations, where the organization has no previous knowledge, Meyer that these peripheral nations are extreme isomorphic in terms of administrative and economic form(Meyer 1981). In another word, institutions reduce uncertainty(Meyer 1981).

Normative isomorphism rises from professionalization(DiMaggio, P. & Powell, W. 1983). The professionals define their work by the occupation and determine the

working methods(Collins 1979, Larsson 1977). Since this fact, I suggest that organizations are forced to follow certain professional activities, such as hiring an agent to do the market study, and since the operations are more committed to the environment, the organization hires, staff and professionals that bare the similar background and are that's why accepted to the organization. This makes the organization more homogenous.

Previous findings support the argument that institutions enable organizations to gain insidership and thus create business opportunities, since Eriksson (1997) argue that the knowledge that is not accessible to everyone, can be obtained among the insiders in the network, allowing the organizations to develop and discover opportunities, however, the institutional conditions enable organizations to develop opportunities, rather than overcome uncertainties(Eriksson et al. 1997). Also, companies that participate into lobbying activities will gain socio-political approval faster than others(Aldrich & Fiol 1994) and organizations must deal with the pragmatic legitimacy, which the organization can promote by doing socially and governmentally approved activities, such as investing in education, technical development and fulfil the required legislative demands(Jansson 2002). If company can fulfil the requirements, it becomes an insider in my opinion and it is difficult for the outsiders to compete against it. Liability of foreignness(Johansson & Mattson 1988), can be reduced. I suggest that trade unions and such can create these opportunities. Also, Jansson (2002) suggest that institutions such as trade unions and business associations influence on the strategic approach of a multinational enterprise(Jansson 2002). Institutional legitimacy can be gained through participation to trade associations and cooperative alliances(Aldrich & Fiol 1994). This not only reduce the cultural difference, but allow companies to exploit new opportunities.

### **3.2 Network approach**

Network approach of internationalization argues that organizations develop networks and expand via using these relationships. The insidership plays a crucial role in the network, since gaining the insidership position requires time and effort. (Johansson & Mattson 1988) I argue that institutionalization and isomorphic change enables

organizations to gain insidership in the network and the institutionalization and isomorphism also prevent companies to gain the insidership.

Network theory of internationalization has several weaknesses, since it does not consider the managers' decisions in the internationalization. Managers can be overlooking or neglecting the internationalization opportunities. The model also neglects the uncontrollable variables such as competition in the domestic market and government economic policies, also, it does not consider the role of formal associations. (Chetty & Blankenburg Holm 2000) Multinational companies must adapt to the requirements that control the behaviour in the foreign location (Jansson 2002). Accordingly, there are more forces in the network not just the force of the internationalization of the production network, but also government and customers that drive internationalization (Chetty & Blankenburg Holm 2000). In my opinion, the institutionalization theory can provide some supporting and useful arguments to understand this limitation. Companies become similar, due to legislative pressures and political influence (DiMaggio, P. & Powell, W. 1983), I suggest that coercive change can promote internationalization due to previously mentioned reason, by requiring companies to adapt certain policies and procedures to get funded and to control activities.

Companies that depend on each other, have centralised resource supply, a lot of uncertainties in the relationship and the more the managers participate into trade or professional associations, tend to become more homogenous (DiMaggio, P. & Powell, W. 1983). This implies, that the network plays a crucial role in the internationalization process and in the institutionalism.

### 3.2.1 Investing into relationships

The network can be divided into micro and macro positions. where the first mentioned is the role the firm possesses to another firms and the last mentioned is the role and importance for the network. However, the macro position is not accumulation of the micro positions. (Johansson & Mattson 1988) Institutionalization can be seen as rules and procedures applied by the social community (Jansson 2002). To strengthen the position in the network, the company

must improve the relationships to the local institutions(Jansson 2002). I argue, when organization become more homogenous, the positions can be established easier, and since the macro rules are more defined, it absorbs companies to the network that have important micro position, and if the micro position is based on institutionalization, the entrance to the network is easier. Multinational companies must adapt to the requirements that control the behaviour in the foreign location. There are meso and macro institutions, which consist of common rules, styles and norms are shared among the competitors, customers and suppliers. (Jansson 2002). Homogenisation occurs here as well, since organizations adapt common rules, styles and norms. When organizations seek for sustainable competitive advantage by uniqueness and imperfect imitability, new industries must do it as a group to survive. (Aldrich & Fiol 1994). This might suggest that companies can benefit from the isomorphism, since if companies adapt to procedures as a group, adapt the common rules and norms, this might create a shelter for them from participants who are not as homogenous as these companies and cannot follow the common procedures.

Companies can also promote the social aspect by the social responsibility, where corporate can be socially responsible by raising ethical standards, promoting health and safety and making investment in education. (The prince of wales business leaders forum,responsible business in the global economy.1998, Pava & Krausz 1997) In my opinion, companies that adopt these policies, become more homogenous, and are respected by the public and this create an own network, and can benefit from it. The mimetic behaviour is not always based on seeking for efficiency (DiMaggio, P. & Powell, W. 1983). In this sense, organizations might have to invest into issues, that not directly increase the efficiency, but indirectly increase the successfulness by creating a positive image and adapting to the network. It is suggested that by these social activities, the company can build reputation and get acceptance from the governments(Jansson 2002). This strengthens the position in the network. Governments can help organizations to internationalize by establishing programmes that aim for internationalization goal(Chetty & Blankenburg Holm 2000). For example, business loans and government funded business projects can be provided. Regulative legitimacy concerns the legislative issues required by the government, and if these are fulfilled governments can pose approvals to the organizations, if they act accordingly(Jansson 2002)

A study argued that international new ventures and born globals must continue to develop the business development and differentiation after the initial expansion to the foreign location to maintain competitiveness in the long term. Companies can keep the sustainable entrepreneurial issues and maintain the sustainable growth through market differentiation. The networks do not only play crucial role when entering the markets but also afterwards. Firms can use these relationships and resources that have embedded in the relationships and respond to foreign market challenges.(Tolstoy 2014) This indicates that organizations must develop and maintain their relationships in the network during the foreign expansion, not only just after the initial entrance to the foreign location. I would like to highlight the role of the relationship towards the institutions. For example, the low sociopolitical legitimacy is a significant barrier for business activities today(Aldrich & Fiol 1994), since for example, in the US, new norms and schemes of burning or burying toxic waste, causes conflicts with the community (Levine 1982). This sociopolitical legitimacy can be gained through lobbying activities and collective marketing(Aldrich & Fiol 1994). The network and the insidership plays a crucial role in this, because applying these activities might be difficult to the outsiders. Also, if the business enterprise belongs to network where the counterparts are well connected in these activities, might provide benefit to the whole network.

Coercive isomorphism explains the formal and informal pressures by other organizations that the organization is expected to fulfill, and these can be the formal and informal pressures by other organizations that the organization is expected to fulfill(DiMaggio, P. & Powell, W. 1983). I suggest, that when the organization enters to the new nation, the company portrays similar characteristics as the companies in the host country due to this reason. Professionalization as a normative isomorphism, makes the organizations to have employees that have similar backgrounds and qualifications(DiMaggio, P. & Powell, W. 1983), differentiation might become difficult due to the homogeneity of the organizations. Mimetic isomorphism also encourages organizations to adapt to similar procedures(DiMaggio, P. & Powell, W. 1983).

Investors will invest more to local relationships in foreign locations if the resources are heterogenous and imitable, also, if the strategic importance of the resources lead



to frequent investments to local relationships (Chen et al. 2004). This might suggest that organizations build protection by investing to the local relationships and to the network. As DiMaggio and Powell (1983) explained the isomorphism (DiMaggio, P. & Powell, W. 1983), it could, be argued, that the organizations in the strategic network become more similar, because of isomorphism. Also, if the host country is not very internationalized, the role of third parties in establishing the relationships are highlighted (Chen et al. 2004). I suggest, that countries that are not very internationalized, rely on institutions in their locations, because the countries that are internationalized, have different procedures and experience. I suggest that institution, such as the third party, is an enabler and a controller of the internationalization process and might have more power in countries that are not very internationalised, since the foreign corporations have not invaded the country and modified it due to the isomorphism. Companies that consider expanding to these locations, must rely on the local authorities. Gaining socio-political legitimacy can help by developing the relationships with the local government (Aldrich & Fiol 1994). Also, Chen et al (2004) found that local linkages are more difficult to obtain in less internationalised countries and they need a third party's assistance (Chen et al. 2004). I suggest, that this indicates the isomorphism and the role of the institutionalization is an enabler to participate into business in countries that are not very internationalised. Once the company adapts the procedures it will strengthen its position. For example, if the country has a highly structured domestic net, it is not possible to enter there without a third party. Also, I suggest that the companies are relatively homogenous and a local party can provide an assistance to break in to the markets.

The network approach explains the foreign operations through the establishments of the networks and gaining the insidership in the network. Some of the participants, cannot gain the insidership, due to the complex structures and complexity of the network and are left out. (Johanson J. & Mattsson L.G. 1988) Institutionalization theory might provide two potential aspects to this issue. If the organizations become more similar in the locations as (DiMaggio, P. & Powell, W. 1983) suggested, then outsiders have difficulties to enter the tightly structured network. On the other hand, the institutionalization, such as establishing trade unions and requiring specific professional qualifications for the company, might improve the changes to become part of the network, if the organization meets the required requirements.

### 3.2.2 Organizations by the stage of internationalization

Four different kinds of organizations have been identified based on the internationalization of the firm and the internationalization of the market. These are early starter, late starter, lonely international and international among others. (Johanson J. & Mattsson L.G. 1988)

Early starter has little knowledge of the markets and adaptation to the markets is usually done by an agent, that can provide information and experience due to the inexperience of the early starter. The early starter has low degree of internationalization and the degree of the internationalization of the market is low as well. (Johanson J. & Mattsson L.G. 1988) I suggest, that the early starter bears the positive opportunities provided by the institutionalization as well as the potential hindering effects. This is because the market and the network has a low degree of internationalization, the step that must be taken to get internationalized has two potential concerns. As suggested before, the companies target countries that have a low physic distance (Johanson J. & Mattsson L.G. 1988). This might be beneficial, since, if the company has acknowledged the form of coercive isomorphism by DiMaggio and Powell (1983). If the company has certain procedures, such as pollution control, that is forced by the domestic markets by the domestic institutions, it has a benefit of doing so in the foreign country and it is familiar with the required legal entities. As normative isomorphism suggests, organizations become more similar, due to professionalization(DiMaggio, P. & Powell, W. 1983). This might act as a potential benefit, if these values are recognized by the institutions in the new network.

In terms of isomorphism, I suggest, that early starters have a potential to expand to countries and locations where the similar institutionalization, similar procedures and values are considered and similar professional abilities are recognized. Also, as Johansson and Mattson (1988) argued, there might occur some problems, since the production capacity might not be big enough to full fill the required orders made by the counterparts of the network(Johansson & Mattson 1988). I suggest that organizations with similar institutional backgrounds, such as responsible supply chain and value chain, have a better change to expand the network and become an

insider. Insider refers to a party, that has access in the network(Johansson & Mattson 1988).

The late starter has a high degree of internationalization of the market and a low degree of internationalization of the firm(Johansson & Mattson 1988). In this case, the institutionalization such as trade unions, EU and such, might provide an easier access to the network, if the late starter applies the required procedures, to become a member. It might also have a negative impact on the internationalization, since if the procedures that the later starter applies in its procedures are not recognized in the network. These can be such as low qualified employees and managers, different legal and political pressures. The normative, coercive and mimetic isomorphism makes the organizations homogenous(DiMaggio, P. & Powell, W. 1983). I suggest that, it is harder for companies that come outside of the network to adapt to the environment, due to the isomorphism that have occurred in the host country. On other hand, if the company portrays similar procedures and qualities, it can make the internationalization easier. Maybe the issue is that the distance to the institutions and the local culture must be small enough. This might refer to the physic distance(Johanson, J. & Vahlne, J. E. 2009).

The lonely international has a high degree of internationalization of the firm and a low degree of internationalization of the market. The firm has good abilities in my opinion due to the institutionalization. It has studied how to handle the new environment in terms of culture and institutions.(Johansson & Mattson 1988). Since the organization face the isomorphism (DiMaggio, P. & Powell, W. 1983), I suggest that organizations that have recognized the needed procedures and protocols, can have a potential to expand, and if not, it might face some difficulties, since, DiMaggio and Powell suggest that organizations tend to become more similar(DiMaggio, P. & Powell, W. 1983). Johansson and Mattson (1988) suggest that lonely international has less problems in entering the new network, if it has a lot of knowledge of different national markets(Johansson & Mattson 1988). I suggest that these national markets must to be in line with the target country because of previously mentioned reasons. Also, (Johanson, J. & Vahlne, J. E. 2009) suggest that companies enter to countries with less physic distance.

The international among others has high degree of internationalization in both market and the firm. These companies can typically be global oligopolies. The company has a wide international network and the international integration of the firm is high. (Johansson & Mattson 1988) Coercive isomorphism (DiMaggio, P. & Powell, W. 1983), can be beneficial. If company is restricted by international laws and legislative pressures, it makes the coordination easier. Also, the normative isomorphism (DiMaggio, P. & Powell, W. 1983), occurs here and can be beneficial, since according to DiMaggio and Powell (1983) by filtering personnel, hiring focuses on individuals that have similar back grounds and requirements which leads to normative isomorphism (DiMaggio, P. & Powell, W. 1983). I suggest that this allows the company to have better international integration, since the professionals have similar background and perhaps same values and goals. Mimetic isomorphism occurs when organizations face uncertainty and tend to mime successful organizations and their procedures (DiMaggio, P. & Powell, W. 1983). I suggest that this is beneficial in the intentional network, if the previous procedures have been successful and the whole field can expand. Business entities become also more similar on the field level, when the organizations that they are having transactions with are similar organizations, the organization do not have other alternatives on the field (DiMaggio, P. & Powell, W. 1983). In I highly structured and internationalized net this effect can be rather large, since the relationships have developed for a long time and a global net has been created. Companies that poses similar characteristics, will be part of the network.

### **3.3 New global born ventures**

Studies argue that companies can skip the phases of the internationalization, and become international from the establishment of the company. These companies are labelled as global born new ventures. New ventures have four different elements that are internationalization of some transactions, alternative governance structures, foreign location advantage and unique resources. (Oviatt & McDougall 1994)

### 3.3.1 Alternative governance structures

Alternative ownership structures are used in new ventures such as licencing and franchising. These ownership structures provide a good way to control the assets internally and externally. (Oviatt & McDougall 1994) Normative coercive and mimetic isomorphism (DiMaggio, P. & Powell, W. 1983) can have a positive impact in these structures, since the structures become more frequently used in the network, which allows the companies to develop relationships. Also, internationalization of some transactions is typic for new ventures (Oviatt & McDougall 1994). I argue that institutionalism provide assistance and shelter for companies that internationalize and transactions can be internationalised easier and more reliable. I suggest, that the homogenisation due to isomorphism, allows new ventures to have and direct resources to new locations, into locations that share similar institutional environment. Unique resources refer to assets that are the key for sustainable competitive advantage and these can be patents and copyrights, unique organizational history, licencing and governance structures in the network such as alliances (Oviatt & McDougall 1994). I argue, that institutionalization supports this, since due to normative isomorphism organizations have employees that have similar backgrounds, coercive isomorphism occurs because organizations face common legislative and political pressures in the environment and organizations mimic the practices of successful companies, mimetic isomorphism occurs (DiMaggio, P. & Powell, W. 1983).

Institutionalization can have an impact on this internationalization process in my opinion in several ways. As DiMaggio and Powell (1983) described the three different types of isomorphism, when organizations become more homogenous (DiMaggio, P. & Powell, W. 1983). In my opinion, this allows companies to internationalize faster. This is for following reasons. When companies face mimetic process in the internationalization process, companies seek for similar procedures and applications to become as successful as the successful companies (DiMaggio, P. & Powell, W. 1983). This might lead to a situation, where the practices that have emerged to be good, will be used. On the other hand, when professional isomorphism occurs, companies seek for personnel and management, that have similar professional qualifications (DiMaggio, P. & Powell, W. 1983). I

think this provides companies that have background and founders who bare these qualities allow them to expand faster and become a part if the essential network, as Johansson and Mattson (1988) have expressed the importance of the network(Johansson & Mattson 1988).

Also, the political pressures, legislative procedures that have been applied in the network, can work as a benefit for companies that fulfil these requirements. For example, it is easier to expand to the markets where is already demand, and it is also easier to adapt the required procedures and such. Companies that have acquired the EU standards in the business for example have a greater possibility to expand to such markets. Also, I argue, that the globe has become smaller, and the institutionalization is a connecting figure between the companies. Companies that fit into the homogenized mass, have easier times to expand.

### 3.3.2 Different types of new ventures

Institutionalization can also promote the growth of new ventures in following way. New international market makers export and import goods where there is demand and the most essential value chain activity is related to logistics(Oviatt & McDougall 1994). I argue that institutions such as European union, might make the trading and moving of the goods easier, since the open borders. DiMaggio and Powell (1983) found that organizations that have, centralized supply chain will become more similar(DiMaggio, P. & Powell, W. 1983).Geographically focused start-ups seek for a specialized market and provide them satisfaction through foreign resources. The difference to international market makers is that geographically focused start-ups are geographically focusing on one market and on the other hand the difference to import export start-ups is that it has more coordinated and many value chain activities in many countries. (Oviatt & McDougall 1994) I suggest that companies that have face similar institutional change in the home country, aim to host countries that have similar characteristics in coercive, normative and mimetic level. Global start- ups have unlimited geographical scope and they deal with multiple value chain activities across countries and these international new ventures are the most difficult to establish, since these operations require geographical and activity control(Oviatt &

McDougall 1994). I argue, that the geographical and activity control can be established and maintained due to institutionalization and isomorphism.

International new ventures with greater knowledge intensive and former participation in internationalization promoted faster growth, but companies that had more imitable resources grew also faster. The study came to propositions that organizations that are larger, are more internationalized. International sales were complementary for the domestic sales, not. (Autio & Sapienza, H. & Almeida, J. 2000) Could this be explained by the isomorphism, since if the organizational resources can be imitated and it promotes growth, could it be implying that organizations that have become homogenous and follow procedures are actually good, maybe the sustained competitive advantage can be explained, in a way that what kind of role the organization possess in the network, that has been established around the frames that the institutionalization and isomorphic change has constructed.

There are a lot of risks when it comes to establishing a new venture. The dynamics at the organizational level discuss that trust building may increase the successfulness. In the early phases of the industry's life cycle, founders have difficult times to gain trust and acceptance in stakeholder relations, have difficulties to fight other industries and new organizations will never be able to win institutional support. (Aldrich & Fiol 1994) The study gave contribution to the strategic aspect, that when organizations seek for sustainable competitive advantage by uniqueness and imperfect imitability, new industries have to do it as a group in order to survive. (Aldrich & Fiol 1994) This also supports the argument, that companies that are entering new markets and foreign locations, must rely on the relationships and constantly build new ones (Johansson & Mattson 1988). I argue, that organizations have become so similar as DiMaggio and Powell (1983) suggested and that the only way to survive is to survive a group (DiMaggio, P. & Powell, W. 1983, Johansson & Mattson 1988). Also, an organization typically relies in complex existing relationships and there are multiple players in the value chain, and I argue that isomorphism brings the players together and define clear rules, thus increase trust and control.

## **4 CONCLUSIONS AND CONTRIBUTION TO FUTURE RESEARCH**

### **4.1 Purpose of the study**

The qualitative research aims for understanding situations (Hoepfl 1997). The purpose of the study was to gain understanding for the issue, what is the role of institutionalization in internationalization. The aim was to create a holistic overview of the existing theories and literature of internationalization and to stress the role of the institutionalisation in this concept. At the same time the purpose was to create discussion and express my own thoughts and opinions on the issue. The aim was also to create possible future research agendas. The main theoretical framework was based on the learning theory, network approach, the new venture theory and the institutionalization theory of internationalization. Literature review was chosen to be the research method.

### **4.2 Scientific contribution**

The scientific contribution of the study was to issue and test the existing theories. The scientific contribution of the thesis is that the importance of the institutionalization should be stressed and considered when the internationalization process of the companies is examined. The institutionalization can provide answers why companies choose specific locations for their activities and what kind of business environment is beneficial for different companies.

### **4.3 Practical contribution**

The practical contribution of the study is following. As I have discussed in the thesis, the institutionalization can be an enabler for the organizations that are seeking to expand their businesses to foreign locations. The managers should then consider, how the institutionalization can be seen in their decisions. For example, as DiMaggio and Powell (1983) described that organizations become more similar due to certain processes and pressures (DiMaggio, P. & Powell, W. 1983), how should managers react to these situations, should they participate in activities that make the organizations more similar. According to Johansson and Mattson (1988) the network



of the organization plays a crucial role in the internationalization process (Johansson & Mattson 1988). Managers then should consider, what if the only possible way to gain the insidership is to follow the procedures and allow the institutionalization to take over, to gain access to the network, and therefore participate and expand the international business in foreign locations. Organizations that are seeking for rapid expansion, can benefit from the institutionalization as well, since the word has become smaller in sense and applied policies are widely known and this also reduces the riskiness of the new operations. Institutionalization can provide innovative companies benefits, via patents and such for example.

The implication that can be found from the study are that the companies must consider the different aspects regarding the internationalization process. The role of the institutions is very important in my opinion and this institutionalization can be seen present everywhere. I also suggest, that the institutionalisation must be considered and the companies that are aiming to another host countries, must be aware that the actions that they will make in the new location have an impact on the surrounding business network and the surrounding business environment. Companies must consider the relationships with another companies, the government, and the public. According to Jansson (2002), organizations must adapt to the surrounding environment that consists of micro- meso- and macro institutions (Jansson 2002). For example, gaining socio-political legitimacy can help by developing the relationships with the local government (Aldrich & Fiol 1994). The relationships have many counterparts and are complex. Companies can use the institutionalisation as a benefit, since as it has been brought up in the thesis, the role of the institutionalization is inevitable and companies can truly benefit from the homogenisation, the only issue is to possess the required competences to benefit from the institutionalization.

#### **4.4 Quality of the research**

Reliability in qualitative research can be used to evaluate and test the research. (Hoepfl 1997) The reliability of the study is good, since the articles and the literature that have been used in the thesis are collected from known scientific journals and books, by authors that have made scientific contribution in their research. However, the research was based solely on the literature review. Qualitative research usually

uses interviews and observations (Hoepfl 1997). This might have an impact on the quality of the research. The findings of the research and the ideas that have been emerged during the process, could gain more reliability, if the emergent ideas could have been tested by interviewing persons that are involved in the internationalization process. Also, a case study could have provided more insight. This would have put the assumptions and opinions to a test and to realise, whether they apply in real life settings. The validity of research means that the research can be generalised (Hoepfl 1997). The results of the thesis cannot be generalised without further experimentation and deeper understanding of the role of the institutionalisation in international business. The thesis has been focusing on a large scope, to get an overview of the matter. To make more generalised conclusions, more detailed research needs to be conducted.

#### **4.5 Suggested further research agenda**

The suggested future research agenda is to test the ideas and assumption presented in the paper. The future research could test, what is the actual role of the institutionalization of the internationalization, does it provide any economic benefits and does it effect on the formulation of the network or does it make the foreign expansion faster for new emerging companies. The scope of the study could also be narrower, focusing for example on single nation that is participating in international trade, or focusing on companies, that size is also pre-determine and comparing, is there a difference between small, medium and large corporations, and if there is, how does it effect and what is the possible outcome. The geographical scope could also be narrowed down, and it could be examined, weather there are differences in the location and how the local institutions promote or prevent from international expansion. What nations or continents benefit the most from the institutionalization what doesn't. Could the institutionalization have benefits and negative effects depending on the size of the corporation? For what kind of businesses the institutionalization can be an enabler and for what kind of businesses it is an obstacle?

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