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Institutional Theory and Cross-National Differences in International Market Selection for Direct Selling

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INSTITUTIONAL THEORY AND CROSS-NATIONAL DIFFERENCES IN
INTERNATIONAL MARKET SELECTION FOR DIRECT SELLING

by

Charles B. Ragland

A Dissertation

Presented in Partial Fulfillment of Requirements for the

Degree of

Doctor of Business Administration

In the

Coles College of Business

Kennesaw State University

Kennesaw, GA

2012

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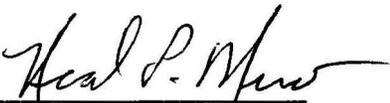
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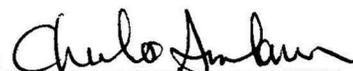
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ABSTRACT

INSTITUTIONAL THEORY AND CROSS-NATIONAL DIFFERENCES IN INTERNATIONAL MARKET SELECTION FOR DIRECT SELLING

By

Charles B. Ragland

This study extends international market selection (IMS) literature by using institutional theory to develop conceptual links between country level factors of market attractiveness and IMS. More specifically, this study examines the extent to which institutional theory and cross national differences can predict attractive markets for direct selling. The hypotheses were tested over a sample of 51 countries from developed, developing, and emerging economies that comprise 91 percent of the worldwide GDP. The use of a marketing channel, in this case direct selling, is unique to IMS empirical analysis as it represents multiple products and services from multiple industries. The analysis provided initial empirical support for the hypotheses. Managerial implications are discussed.

TABLE OF CONTENTS

ACCEPTANCE	iii
ACKNOWLEDGEMENTS.....	iv
ABSTRACT.....	vi
LIST OF TABLES	ix
LIST OF FIGURES	x
CHAPTER 1: INTRODUCTION	1
Direct Selling.....	4
CHAPTER 2: LITERATURE REVIEW	8
Normative.....	10
Individualism	12
Masculinity	14
Uncertainty Avoidance	16
Power Distance	18
Cognitive.....	20
Regulative.....	22
CHAPTER 3: METHODOLOGY	25
Data	25
Variables.....	28
Dependent Variable	28
Independent Variables	28
Control Variable	32

CHAPTER 4: DATA ANALYSIS AND FINDINGS	33
Results	35
CHAPTER 5: CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH	37
Limitations	41
Future Research.....	42
Managerial Implications.....	44
REFERENCES	48

LIST OF TABLES

Table		Page
1	Leading Global Direct Selling Companies.....	6
2	Percent Global GDP and Country Classification.....	28
3	Direct Selling Sales and GDP.....	30
4	Pearson's Correlation Matrix, Means, and Standard Deviations.....	35
5	Regression Analysis Predicting Direct Selling IMS.....	36
6	Most Attractive Markets for Direct Selling Expansion.....	47
7	Least Attractive Markets for Direct Selling Expansion.....	48

LIST OF FIGURES

Figure		Page
1	Institutional Theory.....	10
2	Normative (Cultural) Dimension.....	20

CHAPTER 1: INTRODUCTION

A global world view is of increasing importance as firms seek to expand in order to survive. Global expansion is of particular interest to firms in developed economies that see limited growth options at home. But how do companies select target countries for expansion? In exploring this question, this research examines the international market selection (IMS) literature, which uses comparative data between a given set of countries to identify the most promising ones before a more in-depth analysis is conducted (N. Papadopoulos, Chen, & Thomas, 2002; Nicolas Papadopoulos & Martín, 2011). IMS examines how companies select host country target markets (L. Brouthers, Mukhopadhyay, Wilkinson, & Brouthers, 2009). It is a strategic decision that is central to international marketing strategy (N. Papadopoulos, et al., 2002), a critical component in the success or failure of multinational firms (Douglas, Craig, & Sleuwaegen, 1992), and a major determining factor of international performance (L. Brouthers, et al., 2009). Yet, little research has used existing theories/models to predict attractive international markets or evaluate the normative merits of IMS (L. E. Brouthers & Nakos, 2005).

In reviewing the IMS research several gaps in the literature are evident. First, Brouthers et al. (2009) points out that IMS research is largely atheoretical, tending to be descriptive and focus on target country characteristics” (e.g., Cavusgil, 1997; Ghemawat, 2001; Kumar, Stam, & Joachimsthaler, 1994; Nicolas Papadopoulos & Denis, 1988; Wood & Robertson, 2000). Papadopoulos (2002) suggests that many researchers have failed to use existing theories or

models to examine how firms choose international markets. Second, IMS research often has limited geographical scope. In an analysis of IMS empirical studies, Malhotra and Papadopoulos (2007) found that most studies (72 percent) used developed countries with a majority of the studies focusing on the United States, United Kingdom, and Australia. Surprisingly, developing and emerging countries are generally absent from existing studies (S. Malhotra & Papadopoulos, 2007). Third, IMS research is mostly domain specific. Previous empirical research examines IMS from the context of manufacturing products or services at the firm level (S. Malhotra & Papadopoulos, 2007). These studies lack generalizability due to the limited focus of their study – a specific industry being assessed over a limited set of countries.

Recently, a few studies (e.g., L. Brothens, et al., 2009) have used theory to examine IMS. Using Dunning's OLI framework to predict superior subsidiary performance, Brothens and colleagues examined IMS in the context of strategic considerations associated with ownership and internalization advantages, as well as target country characteristics. This study follows a similar approach by using institutional theory (DiMaggio & Powell, 1983; J. Meyer & Rowan, 1977; Scott, 1995) to examine international influences on country selection decisions. Institutional theory considers "the processes by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behavior" and includes three distinct but interdependent elements: normative (e.g., values and norms), cognitive (e.g., shared knowledge), and regulative (e.g., laws and rules) (Scott, 1995).

In order to be generalizable three conditions should be met in selecting a context to examine IMS. Meeting these criteria increase the generalizability of the study by allowing institutional theory to be empirically tested with a global sample of diverse products. First, it was important to select a business activity in which the normative, cognitive, and regulative

institutional components were distinguishable and measurable. Second, the business activity needed a global footprint. Third, the business activity needed to represent a diverse group of products. Based on these criteria, the direct selling marketing method was selected. The direct selling marketing method has a large global footprint and has national direct selling associations in 60 developed, developing, and emerging economies. The presence in multiple countries allows for the normative, cognitive, and regulative institutional components to be distinguishable and measurable. Additionally, direct selling is the market channel of choice for diverse manufacturers seeking to market products directly to consumers away from fixed retail locations. For example, Avon Corporation, a leading global direct selling company, reports that two out of five women worldwide purchased an Avon Product last year (Avon, 2010). The goal of this study is to examine if institutional theory (DiMaggio & Powell, 1983; Scott, 1995) can predict international market selection for direct selling.

This research contributes to the IMS literature by examining theory driven market selection in a unique marketing context. Moreover, this study attempts to extend the IMS literature by using institutional theory to better understand IMS over a broad range of developed, developing, and emerging economies. The proposed model considers the relationship of a society's institutional components and direct selling IMS. Specifically, this research will use institutional theory to examine cross-national differences in international market selection for direct selling. This study contributes to the IMS literature in a number of ways. First, this study is the first to utilize institutional theory to predict IMS and to use national culture as a primary screening variable for IMS. Furthermore, it expands the geographical scope by examining a broad range of developed, developing, and emerging economies. Finally, setting this study

within a marketing channel that sells products and services from multiple industries to consumers is also a unique contribution relative to many studies in the IMS area.

The hypotheses are tested using data from 51 countries gathered from respected international organizations: the World Federation of Direct Selling Associations (WFDSA), World Bank *World Development Indicators*, CIA *World Factbook*, Heritage Foundation and Wall Street Journal, United Nations Development Program's *Human Development Report*, and Hofstede's Cultural Indices. The study concludes by discussing managerial implications.

This research is organized as follows: First, background is provided for the direct selling context. Second, institutional theory is discussed and the hypotheses are developed. Third, the methods, data analysis, and results are reported. This research concludes with a discussion of results, limitations, future research, and managerial implications.

Direct Selling

Direct selling is defined as the face-to-face selling of consumer goods away from a fixed retail location (Grayson, 2007; Peterson & Wotruba, 1996). It includes both multilevel and single-level direct selling organizations (Berry, 1997). The direct selling activity is discretionary with periods of little or no activity to high levels of activity (T. R. Wotruba, 1990). Virtually all sales representatives are independent contractors who are paid by commission or bonus only when sales transactions occur (Peterson & Wotruba, 1996).

Direct selling has been described as an additional component of the marketing mix, representing a channel of distribution for increasing market penetration (Duffy, 2005). Direct selling provides a unique channel to developing relationships in a personal, face-to-face, non-store environment (Peterson & Wotruba, 1996). Direct selling is often characterized as non-store retail and differs from direct marketing as it does not involve mailed catalogs, telemarketing,

direct response advertising, infomercials, or similar approaches (Peterson & Wotruba, 1996). Direct selling's key differentiating features and basis of competitive advantage are the development of personal relationships with consumers, product expertise, and convenience (Crittenden & Crittenden, 2004; Peterson & Wotruba, 1996; Sanan, 1997).

The direct selling channel provides an interesting context for the study of IMS due to its global footprint and diversity of products represented. This channel is active in more than 60 developed, developing, and emerging economies with 2009 global sales approximating \$117 billion and 74 million sales associates (WFDSA, 2011). The United States, Japan, China, Brazil, and South Korea are the leading countries in sales volume, but more than twenty countries have sales levels greater than \$1 billion annually (WFDSA, 2011). The United States is the largest direct selling market with more than 1500 companies generating \$28 billion in sales with 16 million sales associates (Ponder, 2010; WFDSA, 2011).

Direct selling is the channel of choice for many global firms. Avon, the world's largest direct selling company, reports two out of every five women globally have purchase an Avon product in the past year, and 68 percent of its revenue comes from developing and emerging markets (Avon, 2010). Other prominent direct selling companies with sales in excess of \$1 billion include: Amway Corp., Vorwerk & Co KG (includes JAFRA Cosmetics), Mary Kay Inc., Herbalife Ltd., Primerica Financial Services Inc., Tupperware Brands Corp., Natura Cosmetics SA, Oriflame Kosmetiek B.V., Forever Living Products, Nu Skin Enterprises Inc., and Miki (Emmert, 2011), see table 1. The leading product categories are cosmetics, skin care, health & wellness, and household cleaning goods with relative sales levels varying from country to country (Crittenden & Crittenden, 2004).

At the salesperson level, direct selling consists of sharing products and opportunities with friends and acquaintances. Direct selling encourages sales representatives to use existing social networks as a pool for potential sales contacts and recruiting new representatives (Grayson, 2007; Pratt & Rosa, 2003).

Table 1: Leading Global Direct Selling Companies

Company	Country	2010 Sales \$USD (Millions)	Sales Associates (thousands)	Markets	Products
Avon Products, Inc.	USA	10,900	6500	100+	Cosmetics, fragrances and toiletries
Amway	USA	9200	3000	80+	Beauty, personal care, home-care products
Natura Cosméticos SA	Brazil	3000	1000	7	Personal care products, fragrances
Vorwerk & Co. KG (JAFRA Cosmetics)	Germany	2900	600	61	Cosmetics, home appliances
Herbalife Ltd.	USA	2700	2100	75	Nutritional supplements, skin-care, hair-care, weight management
Mary Kay Inc.	USA	2500	2000	35+	Skin-care, color cosmetics
Tupperware Brands Corp.	USA	2300	2600	95+	Storage and serving products, beauty and personal care products
Oriflame Cosmetics S.A.	Sweden	2200	3500	62	Beauty products
Forever Living Products	USA	1700	9300	142	Aloe Vera drinks, skin-care products, cosmetics, nutritional products
Nu Skin Enterprises, Inc.	USA	1500	800	51	Personal care and nutritional products
Belcorp/L'Bel Paris	Peru	1300	840	15	Skin-care, fragrance, makeup, body-care, hair-care products
Primerica Inc.	USA	1300	100	5	Financial services
Miki Corporation	Japan	927	N/A	3	Foods, cosmetics, household products
Ignite Inc.	USA	902	195	1	Electricity and natural gas
Melaleuca Inc.	USA	750	N/A	18	Personal care products, cosmetics, cleaning supplies, vitamins
Omnilife	Mexico	750	5000	23	Nutritional supplements, weight-management and beauty products, beverages, cosmetics and fragrances
MonaVie LLC	USA	600	1000	12	Foods and nutritional products
Telecom Plus	UK	600	30	1	Landline phones, broadband, mobile phones, gas, electricity
Yanbal International Unique	Peru	600	350	8	Skin-care and personal care products, cosmetics, jewelry, fragrances
ACN	USA	553	N/A	23	Telecommunications, home and business services
PartyLite (Blyth)	USA	545	64	18	Candles, candle warmers, personal care and food products
Amore Pacific	S. Korea	539	N/A	3	Cosmetics, personal care, health, and tea products

Source: Direct Selling News Global 100 (www.directsellingnews.com)

Sales are typically made through party plans (i.e., having a gathering with a group of potential customers), one-to-one demonstrations, and other personal contact arrangements. Personal interactions between the direct sales representative and the consumer personalize the buying process. It is common for the direct salesperson to visit with friends in their home and discuss the benefits of the products or business opportunity. Many direct selling firms describe this process of personal interaction as “sharing” products and opportunities with friends (Grayson, 2007).

Previous research in direct selling has examined multiple personal selling and sales management perspectives including compensation (Coughlan & Grayson, 1998p. 136), turnover (T. Wotruba, Brodie, & Stanworth, 2005), trust (Chonko, Wotruba, & Loe, 2003; Young & Albaum, 2003) management (Luk, Fullgrabe, & Li, 1999), ethics (Chonko, Wotruba, & Loe, 2002; Chonko, et al., 2003; Koehn, 2001; Peterson & Albaum, 2007), social networks (Sparks & Schenk, 2006), friendship (Grayson, 2007), strategy (Enis, 1993; Ingram, 1993; Schwartz, 1993), motivation (T. R. Wotruba & Tyagi, 1993), consumer response (Barnowe & McNabb, 1993) and technology (Ferrell, Gonzalez-Padron, & Ferrell, 2010). However, one area that has been largely overlooked is international expansion. This research will examine the strategic question of how countries are selected for international expansion by direct selling firms. International expansion is critical to the future success of many direct selling firms (Franco, 2010); yet, management struggles with a decision framework for IMS decisions. Mary Kay Corporation is a case in point, whose international expansion strategy has been opportunistic and based largely on personal contacts (Quelch & Laidler, 2009).

CHAPTER 2: LITERATURE REVIEW

This study uses institutional theory as the lens through which to examine international market selection. Institutional theory goes beyond national culture to capture “various aspects of the national environment including cultural norms, social knowledge, rules and regulations” (Kostova, 1997, p. 180). This expanded view of national environments provides a more precise measure of cross-country differences than simply measuring culture (Kostova, 1997).

Institutional theory has been used in marketing to understand the creation of markets as a social process (Humphreys, 2010), channel structure (Grewal & Dharwadkar, 2002; McFarland, Bloodgood, & Payan, 2008), consumer choice of a retailer (Arnold, Kuzinets, & Handelman, 2001), customer trust (Grayson, Johnson, & Chen, 2008), impact of socially oriented marketing actions (Handelman & Arnold, 1999), marketing’s influence within the firm (Homburg, Jr, & Harley, 1999), and firm strategy (Lambkin & Day, 1989). This study examines the relationship between institutional theory and IMS. Specifically, this essay will use institutional theory to examine cross-national differences for country selection decisions for direct selling.

The general concept behind institutional theory is that forces or institutions within a given society exert influence on social behavior, causing business activities to become more similar than different over time. As these forces are largely different from one country to another, institutional theory captures the relative differences between societies. Institutional theory considers the processes by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behavior (DiMaggio & Powell, 1983; J.

Meyer & Rowan, 1977; Scott, 1995). Meyer and Rowan (1977) proposed that institutional environments impose structural uniformity on all organizations in modern society. DiMaggio and Powell (1983) introduced the concept of coercive, mimetic, and normative isomorphism. They explain that highly structured organizational fields provide a context in which individual efforts to deal rationally with uncertainty and constraint often leads, in the aggregate, to homogeneity in structure, culture, and output.

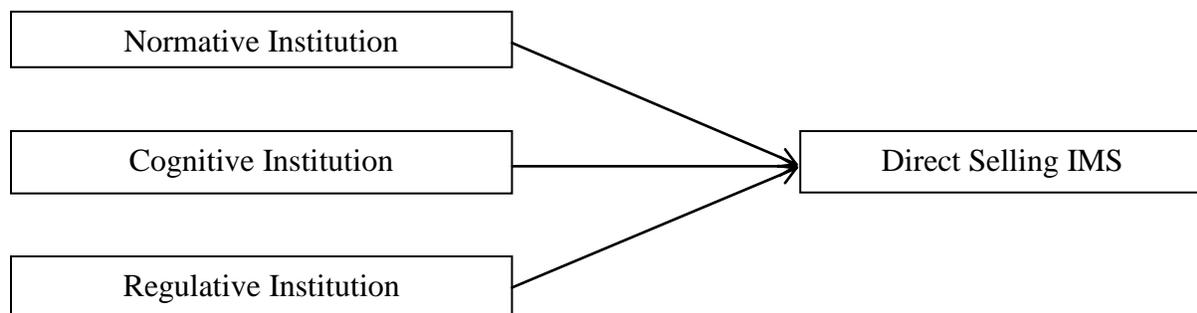
Building on DiMaggio and Powell (DiMaggio & Powell, 1983), Scott (1995, 2008) differentiates between three types of highly interdependent yet distinct factors that underlie institutional order: normative, regulative, and cultural-cognitive elements. Normative elements introduce a “prescriptive, evaluative, and obligatory dimension into social life” (Scott, 2008, p. 54). Regulative elements stress “rule-setting, monitoring, and sanctioning activities” (Scott, 2008, p. 54). Cultural-cognitive elements emphasize the “shared conceptions that constitute the nature of social reality and the frames through which meaning is made” (Scott, 2008, p.57). Scott describes the relationship of the three elements of institutional order as being interdependent yet “varying substantially in the type of institutional order they support, each differing in the bases of order, motives for compliance, logics of action, mechanisms, and indicators employed. Each offer a different rationale for claiming legitimacy, whether by virtue of being legally sanctioned, morally authorized, or culturally supported” (2008, p. 51). Each institutional dimension operates simultaneously to channel and constrain some structure and beliefs, overreliance on one element leads to incomplete understandings of institutional phenomena (Scott, 2008).

North (1990) argues that institutional structure can be formal and informal. Formal institutional structure considers laws, regulations, policies, and other codified procedures.

Informal institutional structure develops over time and embodies cultural norms, belief systems, practices and customs. Taken together, formal and informal institutions form the basis for a society's economic and social system and is one of the causes for differences between countries (Williamson, 2000).

This study uses the three “pillars” of institutional theory (normative, cognitive, and regulative) to predict direct selling IMS (Scott, 1995). To examine the influence of institutional theory on IMS, this study considers the combination of institutional factors that allow a company to identify a country as being attractive. In this study market attractiveness is the unique combination of institutional factors that predict direct selling market penetration. It is proposed that the presence of certain host country institutional factors will create national business environments conducive to direct selling. Specifically, it is hypothesized that there is a positive relationship between the normative, cognitive, and regulative components of institutional theory and direct selling IMS. The conceptual model is depicted in figure 1.

Figure 1: Institutional Theory



Normative

A country's normative institutional factor consists of “social norms, values, beliefs and assumptions that are socially shared and are carried by individuals” (Kostova, 1997, p. 180).

Such normative components introduce “prescriptive, evaluative, and obligatory dimensions into social life” (Scott, 1995, p. 37). A country’s culture, values, beliefs, and norms develop over time (North, 1990) and affect the orientation of its residents (Busenitz & Lau, 1996; Knight, 1997; Tiessen, 1997). The most popular measures of a country’s normative environment are based on Hofstede’s (1980, 2001) dimensions of culture (Busenitz, Gómez, & Spencer, 2000). Understanding culture is important to IMS with prevailing international marketing conditions being country or culture specific (Nicolas Papadopoulos & Martín, 2011).

Hofstede and Bond (1988) and Hoppe (1993) point out that Hofstede (1980, 2001) presents one of the most encompassing frameworks to date of culture. Hofstede defines culture as the “collective programming of the mind which distinguishes the members of one group or category of people from those of another” (2001, p. 9). He argues that management theories, models and practices should be viewed as being culture specific and are often exported to other countries without regard for the values context in which these ideas were developed (2001, p. 374). Hofstede emphasizes that the study of culture compares societies, whereas the study of values compares individuals (2001, p. 15). He distinguishes four dimensions of national culture: power distance, individualism-collectivism, masculinity-femininity, and uncertainty avoidance (1980). His framework has been widely accepted in international business literature, and his country scores have been validated in multiple studies (e.g., Hoppe, 1993; Shane, 1995).

Hofstede has his detractors and there is evidence that challenges Hofstede’s conclusions (Spector, Cooper, & Sparks, 2001). Hofstede’s approach has been criticized for sampling pitfalls (Sivakumar & Nakata, 2001), invalid assumptions (McSweeney, 2002), and western cultural bias (Luk, et al., 1999). Even considering the criticisms of Hofstede’s theory, it still remains one of the most empirically validated measures of national culture. Hofstede’s indices are based on the

most comprehensive studies of cultural values ever conducted and have been subjected to more checks of validity than any other cultural value measure (Hambrick & Brandon, 1988; Hofstede, 2001; Shane, 1995). For marketing researchers, Hofstede's cultural dimensions are especially useful for studying actual behavior at the countrywide level and in identifying patterns of similarity in a global context (Clark, 2003).

Similar to this analysis, Hofstede's cultural measures have been used in previous international research (Kirkman, Lowe, & Gibson, 2006). Specifically, Hofstede's cultural dimensions have been used in entry mode (Arora & Fosfuri, 2000; Keith D. Brouthers & Brouthers, 2000; Keith D. Brouthers & Brouthers, 2001; Chang & Rosenzweig, 2001; Harzing, 2002; Nachum, 2003; Pan, 2002; Pan & Tse, 2000); social networks (Manev & Stevenson, 2001; Zaheer & Zaheer, 1997); entrepreneurship (Morris, Avila, & Allen, 1993; Morris, Davis, & Allen, 1994; A. S. Thomas & Muller, 2000); and foreign direct investment (Habib & Zurawicki, 2002; Kallunki, Larimo, & Pynnonen, 2001; D. E. Thomas & Grosse, 2001). This study uses Hofstede's (2001) four classic dimensions of culture as a measure of the normative component of institutional theory. It proposes that the presence of certain host country cultural factors will create national business environments conducive to direct selling. This study theorizes that four normative/cultural dimensions make some markets more conducive to direct selling than others.

Individualism

The individualism -- collectivism continuum examines the extent to which individuals derive identity from the self versus the collectivities and refers to the "emotional (in)dependence on groups, organizations and other collectivities" (Hofstede, 2001, p. 216). Hofstede argues that "individualism stands for a society in which the ties between individuals are loose: everyone is expected to look after him/herself and her/his immediate family only. Collectivism stands for a

society in which people from birth onwards are integrated into strong, cohesive in-groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty” (2001, p. 225). This dimension is reflected in the way people live together. For example, in some cultures individualism is seen as a blessing and a source of well-being (e.g., Britain, Australia, New Zealand, Ireland, Canada, and the United States); in others, it is seen as alienating (e.g., Venezuela, Colombia, Indonesia, Peru, and Korea) (Hofstede, 1980). In individualistic societies a preference is shown for high autonomy, individual achievement and freedom to make decisions (Hofstede, 1980, p. 211). Generally, the task and the company prevail over any personal relationship (Hofstede, 2001, p. 239). Employees are expected to act as “economic men” who perform best as individuals. Their relationships with colleagues do not depend on their group identity. Individualistic societies value people based on their unique characteristics such as achievement or status. In high individualistic societies like the United States, people expect extrinsic rewards such as money and promotions (Cullen & Parboteeah, 2008).

In collectivist societies social groups such as family, social class, organization, and team all take precedence over the individual (Cullen & Parboteeah, 2008). Social involvement tends to develop into horizontal relationships (Hofstede, 1980). In business situations the personal relationship is emphasized over the task or company. Business relationships begin with the individual relationship, where trust is often established between two parties before they do business. It is through the development of this relationship that both parties adopt the other into their in-groups (Hofstede, 2001, p. 239). Within a company structure, the relationship between the employer and employee is seen in moral terms, resembling a family relationship with mutual obligations of protection in exchange for loyalty. Individuals in a collectivist society rely on

their social network as the main source of information (Hofstede, 2001, p. 244) and are viewed largely in terms of the groups to which they belong (Cullen & Parboteeah, 2008).

The preference shown for group relationships in collectivist societies may be related to success in direct selling. Successful direct selling organizations emphasize vertical (inter) and horizontal (intra) group relationships and support the face-to-face and social characteristics of the selling process (Carmichael, 1993). Leveraging group relationships sometimes involves imposing a business role on a friendship (intra-group) and developing a friendship role within a business relationship (inter-group) (Grayson, 2007). Utilizing one's social network can be a resource for recruiting new friends into direct selling (Biggart, 1989; Pratt & Rosa, 2003). The knowledge and support gained from one's social network helps to explain why some of the ethnic groups are overrepresented in the small business and entrepreneur sector (Lin, 2007). The importance of group relationships is emphasized in collectivist societies and successful direct selling organizations. This study proposes that collectivist societies and successful direct selling organizations focus on the relationship between the individual and the group, and it is the power and influence of the horizontal and vertical relationship among and between groups along with one's social network that may positively impact a society's level of direct sales. Therefore, it is hypothesized that:

H1: Individualism is negatively related to direct selling IMS.

Masculinity

The masculinity – femininity continuum examines the learned styles of interpersonal interaction in a society (Hofstede, 1980, p. 278). Masculinity is the degree to which masculine values like assertiveness, achievement, earnings, competition, recognition, advancement, and competitiveness prevail over feminine values like caring for others in interpersonal relationships

in a society (Hofstede, 1980). Masculine societies attach importance to ego goals such as career and money, while feminine societies attach more importance to social goals such as relationships, helping others, and the physical environment (Hofstede, 2001, p. 279). In examining work goals between men and women, Hofstede observed that “occupational work goal factors differed by gender and occupation, but the occupation differences outweighed gender differences and hardly impacted the relative masculinity country rankings” (2001, p. 283). Masculine societies include Japan, Venezuela, Italy, Switzerland, Mexico, and Germany. Feminine societies are typified by countries such as Denmark, Norway, Sweden, Thailand, and Spain (Hofstede, 2001).

Masculinity – femininity measures the relative strength of social and ego instincts versus nurturing instincts in a society (Hofstede, 2001). Masculine societies show a preference for individual decisions. Men are expected to be and women may be assertive and ambitious. Work is a central focus of a person’s life, where individuals prefer environments that emphasize recognition, advancement, and earnings (Hofstede, 2001, p. 298). Feminine societies show a preference for group decisions. Men and women are expected to be modest. Work is not the central focus of a person’s life, where individuals prefer work environments that emphasize security (Hofstede, 2001, p. 298).

The masculine society characteristics of assertiveness, aggressiveness, and the willingness to achieve reflect attributes of successful direct salespeople. As independent contractors, direct salespeople are essentially their own boss. Their compensation is based on commission or incentive pay. Since direct salespeople control their own time, maintaining activity requires considerable initiative and self-motivation (Coughlan & Grayson, 1998; Pratt & Rosa, 2003). Compared to others in the general population, direct sellers are “outgoing (vs.

reserved), aggressive (vs. passive), enthusiastic (vs. low key), and venturesome (vs. timid) in their personalities” (Peterson & Wotruba, 1996, p. 11). Cort and Shanklin (1998) mention similar characteristics of high performers at the prominent direct seller Mary Kay Cosmetics, including positive attitude, persistency, consistency, enthusiasm, strong desire, motivation, goal setting, preparation, and self-confidence.

The lifeblood of successful direct selling organizations is recruiting and retaining salespeople (Crittenden & Crittenden, 2004). Direct sales performance is associated with sales force size, activity, and productivity (Wiser, 1995; Zoltners, Sinha, & Lorimer, 2008).

Masculine societies provide a pool of potential candidates that have many of the characteristics of high performing direct salespeople. By leveraging the available pool of potential direct sellers, direct selling organizations can recruit and train new sales representatives; possibly increasing the size of their sales organization, their level of sales force activity, and ultimately their performance. Therefore, it is hypothesized that:

H2: Masculinity is positively related to direct selling IMS.

Uncertainty Avoidance

Uncertainty avoidance is the degree to which a society as a whole accepts uncertainty or ambiguity in its daily life (Hofstede, 1980, 2001). It can be defined as “the extent to which members of a culture feel threatened by uncertain, unknown, or unstructured situations” (Hofstede, 2001, p. 161). Societies at large use technology, law, and religion to cope with uncertainty, while organizations use technology, rules, and rituals (Hofstede, 2001, p. 147). “Rules are the way in which organizations reduce internal uncertainty caused by the unpredictability of their members’ and stakeholders’ behavior” (Hofstede, 2001, p. 147). Some societies with high uncertainty avoidance are Greece, Portugal, Belgium, and France. Low

uncertainty avoidance societies include Singapore, Denmark, Sweden, and Honk Kong (Hofstede, 2001).

High uncertainty avoidance societies are more conservative, resistant to change, and exhibit a strong desire for law and order. Individuals prefer larger organizations and tend to stay with the same employer over time (Hofstede, 2001). Low uncertainty avoidance societies have a stronger achievement motivation, are more risk taking, and have a stronger ambition for individual advancement (Hofstede, 1980, p. 176). Individuals prefer smaller organizations and are less hesitant to change employers. They are open to new ideas and show comfort with ambiguity and taking unknown risks (Hofstede, 2001).

Ambition, motivation and risk taking are key aspects of low uncertainty avoidance societies and reflect attributes of successful direct salespeople. Direct sellers embrace risk and ambiguity in pursuing their business objectives. As independent business owners, their success relies on personal initiative, investment, and effort (Lin, 2007). For example, Cort and Shanklin (1998) describe successful Mary Kay consultants as entrepreneurs who demonstrate persistency, desire, commitment, risk taking, and a sense of urgency. The direct selling channel provides opportunities for individuals who prefer a small organizational structure, are open to new ideas, and embrace risk, providing greater opportunities for direct selling firms to recruit new associates. An increase in the number of direct sellers available for the organization may translate into greater sales. This study proposes that the greater the opportunity for direct selling organizations to recruit and retain individuals that exhibit the low uncertainty avoidance attributes of ambition, motivation and risk taking, the greater the number of salespeople that may become involved in the direct selling activity, providing the possibility for higher levels of direct sales. Thus, it is hypothesized that:

H3: Uncertainty avoidance is negatively related to direct selling IMS.

Power Distance

Power distance is the degree to which people expect and accept that power and status are distributed unequally among its members and refers to the emotional dependence on more powerful people (Hofstede, 1980, p. 211). These differences in human equality can occur in areas such as prestige, wealth, and power. Different societies place varying levels of importance on the consistency of power and status among these areas and to a considerable extent determine the level of inequality (Hofstede, 2001, p. 79). Societies in high power distance countries, such as Malaysia, Philippines, Mexico, Brazil, and France are more autocratic and accept differences in power and wealth more readily than societies in low power distance countries. Low power distance societies value equality so that class distinctions are less tolerable and democratic participation is encouraged. Examples include Denmark, New Zealand, Ireland, Sweden and Norway (Hofstede, 1980, 2001).

In a high power distance society an order of inequality exists in which everyone has his or her rightful place. The majority of society's members are dependent on the independent elite minority. High power distance societies show a preference for highly centralized decision-making and less participative decision-making in business organizations. These societies view inequality as the basis for social order with equality being more important than freedom (Hofstede, 2001, p. 96). In a low power distance society, beliefs exist that inequality is to be minimized where the interdependence of members replaces the dependence of the majority. Superiors and subordinates are considered alike and all members have equal rights. These societies respect individual equality, value freedom, and have a stronger perceived work ethic. They prefer consultative, give and take, management styles (Hofstede, 1980, 2001). For

example, both males and females value independence and stress the right to do whatever they want to do, being free to make their own decisions, and being able to do things their own way (Hofstede, 2001, p. 93).

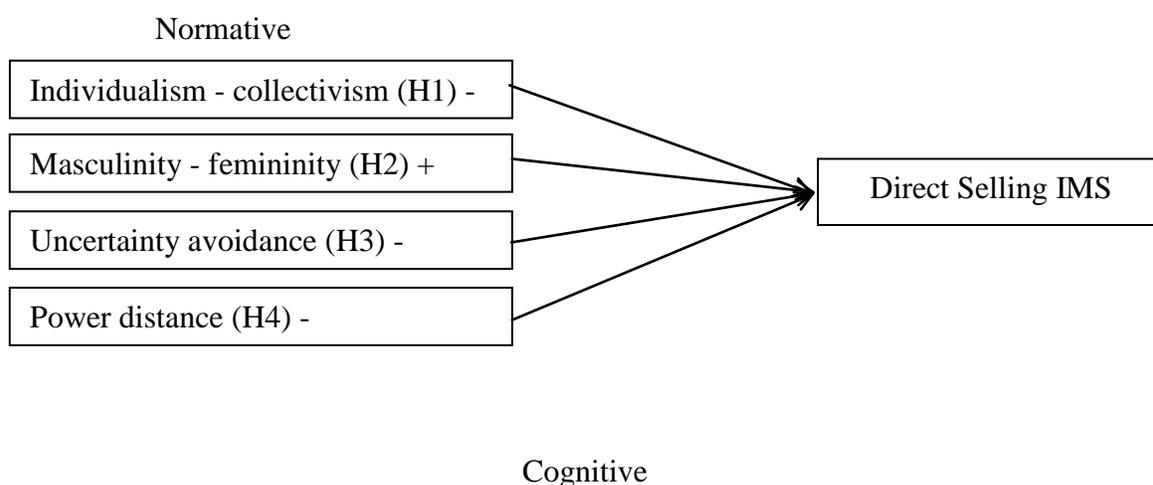
Individual equality, freedom, and a stronger perceived work ethic are key aspects of a low power distance society and reflect attributes of successful direct salespeople. Direct selling has a tradition of independence, simplicity, and minimum investment requirements where individual initiative and effort are rewarded. It provides accessible business and career opportunities to people whose entry would otherwise be restricted by gender, age, education, or previous experience” (Lin, 2007, p. 274). Lin notes that there is “no formal hierarchical relationship between uplines and downlines, and a distributor’s title reflects only her/his performance achievement and responsibilities (sales and service to teams) rather than a level of formal authority” (2007, p. 280). Direct selling provides opportunities for individuals seeking equality of opportunity that leverages relationships, providing greater opportunities for direct selling firms to recruit new associates. This study proposes that the greater the opportunity for direct selling organizations to recruit and retain individuals that exhibit the low power distance attributes of individual equality, freedom, and work ethic, the greater the number of salespeople that my choose the direct selling activity, providing the possibility for higher levels of direct sales. Thus, it is hypothesized that:

H4: Power distance is negatively related to direct selling IMS.

This study uses Hofstede’s (2001) four classic dimensions of culture as a measure of the normative component of institutional theory. Understanding culture is important to IMS with prevailing international marketing conditions being country or culture specific (Nicolas Papadopoulos & Martín, 2011). This study proposes that the presence of certain host country

cultural factors will create national business environments conducive to direct selling. It is theorized that four cultural factors make some markets more conducive to direct selling than others: collectivism, masculinity, low uncertainty avoidance, and low power distance. Figure 2 provides a summary of the relationship between the normative dimension of institutional theory and direct selling IMS.

Figure 2: Normative (Cultural) Dimension



The cognitive factor of institutional theory reflects the knowledge and skills widely shared among individuals in a particular country (Scott, 1995). Kostova points out that “cognitive programs such as schemas, frames, inferential sets, and representations affect the way people notice, categorize, and interpret stimuli from the environment” (1999, p. 314). In this paper I consider an important cognitive social institution, a society’s educational system (K. Parboteeah, Hoegl, & Cullen, 2008).

Education as an institution provides “socializing experiences which prepare individuals to act in a society” (J. W. Meyer, 1977, p. 55). Whitley (1999) emphasizes the importance of a country’s educational system in developing individual competencies and skills. Educational spending translates into innovations that enhance the knowledge, skills, and abilities of

individuals (Baldwin & Borrelli, 2008). Porter (1990) considered the education factor endowment as a component of a country's human capital. Investments in human capital often through education translates into labor, programs, technology, and innovations that enhance knowledge, skills, and abilities (Becker, 1962; Mincer, 1958; Mincer & Solomon, 1978; Schultz, 1961). Mass education helps create a homogeneous view of society by promoting a common view of national language, history, civic order, and reality (J. W. Meyer, 1977, p. 71). Thus, Turner (1997) argues, the educational system plays the important role of transmitting societal norms and beliefs from generation to generation.

Scholars have shown interest in the effects of education as an institution (Salimath & Cullen, 2010). Education is positively associated with the tendency to become an entrepreneur (Aronson, 1991). In a study focusing on transition economies, Earle and Sakova (1999) found that the self-employment decision is positively related to years of education. Educated people are more likely than uneducated people to start a business (Reynolds, 1991; Van de Ven, Hudson, & Schroeder, 1984). In a study examining the relationship between institutional structures and entrepreneurial activity, Spencer and Gomez (2004) found that small enterprises are more likely to proliferate, and new ventures are more likely to expand and attract external investment, when the knowledge and skills necessary to operate a firm are widespread in a country.

Direct selling is an entrepreneurial activity that is attracting participants with higher education and university degrees (Ipsos-MORI & FEDSA, 2007). Many of these individuals are attracted to the idea of owning their own business. For example, Lin (2007) observes that many highly educated and skilled Chinese immigrants are choosing direct selling versus government promoted technology programs. Similarly, higher education is an attribute of direct sales

purchasers, who tend to be younger, higher educated, and more affluent than non-purchasers (Peterson, Albaum, & Ridgway, 1989; Sargeant & Msweli, 1999; T. R. Wotruba, 1996). This study proposes that societies with higher levels of education may offer a willing recruiting base for direct sales companies. Similarly, societies with higher levels of education may offer more potential consumers for direct sales products. The combination of a willing recruiting base and more potential consumers may lead to higher levels of direct sales. Thus, societies with higher levels of education have a larger pool of potential direct sellers and consumers, suggesting an attractive market for direct selling. Hence, there is a positive relationship between a society's level of educational attainment and its level of direct sales. Therefore, it is hypothesized that:

H5: The level of education is positively related to direct selling IMS.

Regulative

The regulative institutional factor consists of those existing laws and rules in a particular national environment which promote certain types of behaviors and restrict others (Kostova, 1997), and is "reflective of the implicit and explicit political and social mechanisms that exist within a country" (Szyliowicz & Galvin, 2010, p. 327). The regulative climate impacts the level of economic freedom in a society, creating incentive structures that define opportunities and facilitate certain kinds of transactions. In turn organizations take advantage of the opportunity provided within a given institutional framework (Salimath & Cullen, 2010).

Laws and regulations can specify the responsibilities of small business owners, assign property rights, and reduce the risks involved in starting a new business; government policy can also inhibit entrepreneurial success (Spencer & Gomez, 2004). Researchers have found that burdensome procedural requirements may limit entrepreneurial activity (Dana, 1990), and that uncertainty and instability in government policies toward the private sector may reduce

entrepreneurs' interest in developing long-term growth strategies (Tan, 1996). Hernando De Soto (2000) in examining the lack of a formal, integrated property rights system in developing countries argues that individuals are prevented from becoming entrepreneurs, because they are unable to leverage their informally owned assets of credit. Additionally, if certain types of entrepreneurial activity require financial resources, then the unequal distribution of these resources and differential access to them could restrict entrepreneurship to certain groups and suppress entrepreneurial activity generally (Lippmann, Davis, & Aldrich, 2005). In restrictive regulative environments, Feldmann (2007) found a positive relationship between reductions in economic freedom and increases in unemployment. Wilkinson and associates argue that "the growth of direct marketing (sales) in developing countries is aided by high levels of unemployment as people seek ways to earn additional money or gain added income security" (2007, p. 23).

As income-generating alternatives from traditional employment decreases, entrepreneurial activity increases (McMullen, Bagby, & Palich, 2008). Ipsos-MORI and the Federation of European Direct Selling Associations (2007) found that an increased number of people find in direct selling an alternative to traditional employed work they have either lost or cannot find. Ragland, et al., (2010) found a positive relationship between restrictive regulatory environments and the level of direct sales in a country. As levels of financial freedom decrease, government policy takes a more active role regulating the business environment, reducing available capital to finance new ventures, dampening entrepreneurial opportunities, and reducing the opportunities for traditional employment opportunities.

Direct selling provides accessible business and career opportunities to people whose entry would otherwise be restricted by gender, age, education, or previous experience (Lin,

2007). It is an alternative way to provide for the needs of the family and develop a business that requires limited amounts of upfront capital. The decision to consider direct selling may take place when there are few or no other opportunities for gainful labor market participation (Ragland, et al., 2010). This type of necessity entrepreneurship (Bosma, Acs, Autio, Coduras, & Levie, 2008) is often taken with little or no financial capital, because it constitutes a final effort to secure an income when other employment options fail (Lippmann, et al., 2005). Thus, direct selling is an alternative to traditional employment that prospers in restrictive regulatory environments (Ragland, et al., 2010).

As economic freedom is reduced through government intervention, individuals may need to identify alternative employment options to supplement or replace traditional occupations. Direct selling may offer an alternative for these individuals by providing an opportunity to earn additional income on a full or part time basis. This study proposes that societies with restrictive regulative environments may offer a willing recruiting base for direct sales companies. The larger the pool of candidates considering direct selling, the higher the likelihood of direct sales companies recruiting and retaining salespeople, offering the possibility for increased sales levels for the organization and the industry as a whole. Hence, societies with restrictive regulatory institutional environments may provide fruitful markets for direct selling, as more and more people turn to direct selling as an alternative way to provide for the needs of their family. Therefore, it is hypothesized that

H6: The level of economic freedom is negatively related to direct selling IMS.

CHAPTER 3: METHODOLOGY

To study the influence of institutional theory on IMS, multiple regression analysis was utilized to examine the relationship between the normative, cognitive, and regulative components of institutional theory and direct selling market penetration. The research problem involves a single metric dependent variable presumed to be related to two or more metric independent variables, indicating that multiple regression is the appropriate method of analysis (Hair Jr, Black, Babin, & Anderson, 2010, p. 16). Six hypotheses are tested. Means, standard deviations, and correlations are reported along with the regression results.

Data

A strong tradition exists for using secondary data in international empirical studies. Yang and associates (2006) in an analysis of 1296 empirical articles published in the six leading international business journals from 1992 to 2003 found that 32.7 percent of studies employing pre-existing quantitative and qualitative data such as government database, financial database, census data, social surveys, organizational administrative data, public records, and longitudinal studies. *Journal of International Business Studies* (JIBS) published the highest percentage of secondary data-based research, demonstrating a good balance between survey-based data and secondary data (51.8 % versus 42.6 %). Two international marketing-specific journals, *Journal of International Marketing* (JIM) and *International Marketing Review* (IMR), utilized less secondary data (24.8% and 17.7% respectively), suggesting an opportunity for the expanded use of secondary data in international marketing.

While there is a long tradition in IMS empirical studies to utilize secondary data, there are at least two significant limitations to many of these studies. First, many focus on only a small number of countries. In fact, eighty-six percent of the studies focus on a single country, which severely limits the generalizability of the results (S. Malhotra & Papadopoulos, 2007). However, even those studies which do use multiple countries tend to focus primarily on developed countries and disproportionately include the United Kingdom, United States, and Australia (S. Malhotra & Papadopoulos, 2007). While these three countries represent 30 percent of global GDP, using these countries in so many IMS studies has severely restricted theory building due to the limited inclusion of developing countries (Leonidou & Katsikeas, 1996), suggesting the need to integrate developing and emerging economies into theory building and empirical analysis.

To overcome these limitations, one of the major strengths of this research is that it utilizes data from 51 countries which represent 91 percent of the world's GDP and includes countries from Asia, Africa, Europe, Latin America, and North America (see table 2). The sample was developed from data published by the World Federation of Direct Selling Associations (WFDSA). The WFDSA membership consists of 60 national direct selling associations. Each national association collects direct sales data for their respective countries and provides this information to WFDSA. In 2009, the WFDSA reported sales numbers for 58 countries. Scores for Hofstede's cultural dimensions were available for 52 of the 58 countries represented by national direct selling associations. Hofstede scores were not available for Croatia, Dominican Republic, Latvia, Lithuania, Slovenia, and Ukraine. Additionally, United Nations and World Bank do not publish data for Taiwan. In total, 51 of the 60 countries yielded the needed data points.

Table 2: Percent Global GDP and Country Classification

Country	% of Global GDP \$USD (World Bank 2009)	Country Classification	Country	% of Global GDP \$USD (World Bank 2009)	Country Classification
Argentina	0.53%	Emerging	Luxembourg	0.09%	Developed
Australia	1.59%	Developed	Malaysia	0.33%	Emerging
Austria	0.66%	Developed	Mexico	1.51%	Emerging
Belgium	0.81%	Developed	Netherlands	1.36%	Developed
Brazil	2.71%	Emerging	New Zealand	0.22%	Developed
Bulgaria	0.08%	Developing	Norway	0.66%	Developed
Canada	2.30%	Developed	Panama	0.04%	Developing
Chile	0.28%	Emerging	Peru	0.22%	Emerging
China	8.58%	Emerging	Philippines	0.28%	Emerging
Colombia	0.40%	Emerging	Poland	0.74%	Emerging
Czech Republic	0.33%	Emerging	Portugal	0.40%	Developed
Denmark	0.53%	Developed	Romania	0.28%	Developing
Ecuador	0.10%	Developing	Russian Federation	2.12%	Emerging
Estonia	0.03%	Developing	Singapore	0.31%	Emerging
Finland	0.41%	Developed	Slovakia	0.15%	Developing
France	4.56%	Developed	South Africa	0.49%	Emerging
Germany	5.73%	Developed	Spain	2.51%	Developed
Greece	0.57%	Developed	Sweden	0.70%	Developed
Hong Kong	0.36%	Emerging	Switzerland	0.85%	Developed
Hungary	0.22%	Emerging	Thailand	0.45%	Emerging
India	2.26%	Emerging	Turkey	1.06%	Emerging
Indonesia	0.93%	Emerging	United Kingdom	3.74%	Developed
Ireland	0.39%	Developed	United States	24.31%	Developed
Italy	3.64%	Developed	Uruguay	0.05%	Developing
Japan	8.73%	Developed	Venezuela	0.56%	Emerging
Korea (Republic of)	1.43%	Emerging			

Country Classification based on Economist Emerging Market Rankings and Dow Jones Country Classification System

For cross-cultural research, this sample represents an especially large cross section of countries from developed, developing, and emerging economies, increasing the generalizability of the results (Chui & Kwok, 2008). It addresses a key limitation of IMS theory building and empirical research by including emerging countries such as Brazil, Russia, India, and China,

which are governed by different governmental policies and demand conditions (Leonidou & Katsikeas, 1996). Secondary data allowed for the size and diversity of the sample.

Variables

Dependent Variable

The dependent variable is direct selling market penetration. Direct selling market penetration was measured by the relative sales penetration in a country divided by GDP. Sales is a common measure for market potential (Gaston-Breton & Martín, 2011; Wood & Robertson, 2000). Following previous studies this analysis used a ratio instead of the gross measure to control for the level of sales relative to the size of the economy (Amussen, 2009). The ratio was calculated by dividing the direct selling retail sales level by current GDP for each country, see table 3. The total direct selling retail sales level in US dollars from each direct selling country association was provided by the WFDSA (2009). GDP in current US dollars provided the basis for estimates of overall national wealth and was obtained from the *World Development Indicators* (World Bank, 2009).

Independent Variables

This study used the three components of institutional theory as independent variables: normative, cognitive, and regulative dimensions of a society. A country's normative institutional component consists of "social norms, values, beliefs and assumptions that are socially shared and are carried by individuals" (Kostova, 1997, p. 180). The most popular measures of countries' normative environment depend on Hofstede's (1980, 2001) dimensions of culture (Busenitz, et al., 2000).

Table 3: Direct Selling Sales and GDP

Country	DSA Sales Million \$USD (WFDSA 2009)	Current GDP Million \$USD (World Bank 2009)	Country	DSA Sales Million \$USD (WFDSA 2009)	Current GDP \$USD Million \$USD (World Bank 2009)
Argentina	1,150	307,155	Luxembourg	14	52,296
Australia	1,248	924,843	Malaysia	1,135	193,093
Austria	267	381,084	Mexico	4,825	874,810
Belgium	235	471,161	Netherlands	131	792,128
Brazil	8,040	1,573,410	New Zealand	161	126,679
Bulgaria	69	48,722	Norway	281	381,766
Canada	1,225	1,336,070	Panama	31	24,711
Chile	347	163,669	Peru	896	130,325
China	10,990	4,985,460	Philippines	482	161,196
Colombia	1,266	234,045	Poland	699	430,076
Czech Republic	224	190,274	Portugal	95	232,874
Denmark	126	309,596	Romania	204	161,110
Ecuador	420	57,249	Russia	3,062	1,231,890
Estonia	17	19,084	Singapore	262	182,232
Finland	203	237,989	Slovakia	99	87,642
France	2,413	2,649,390	South Africa	612	285,366
Germany	3,762	3,330,030	Spain	611	1,460,250
Greece	120	329,924	Sweden	388	406,072
Hong Kong	145	210,355	Switzerland	384	491,924
Hungary	250	128,964	Thailand	1,559	263,772
India	1,063	1,310,170	Turkey	442	614,603
Indonesia	575	540,274	United Kingdom	1,397	2,174,530
Ireland	74	227,193	United States	28,330	14,119,000
Italy	3,361	2,112,780	Uruguay	52	31,511
Japan	22,465	5,069,000	Venezuela	1,123	326,133
Korea (Republic of)	7,843	832,512			

Note: Values rounded to nearest million

Hofstede's four classic dimensions of culture were used as the normative/culture independent variables: individualism, masculinity, uncertainty avoidance, and power distance (Hofstede, 1980, 2001). Hofstede's framework was based on 116,000 surveys from 88,000 employees of IBM subsidiaries around the world. The original sample consisted of 72 countries, but only those countries with more than 50 responses were included in the original study

(Kirkman, et al., 2006). Since the original study, Hofstede and his coauthors have continued to expand the database. In this study the variables were measured using the scores reported by Hofstede (2001).

Individualism -- collectivism measures the extent to which individuals derive identity from the self versus the collective. The scores can range from 6 to 91 with higher scores reflecting individualism and lower scores reflecting collectivism. The mean score is 43 and standard deviation is 25 (Hofstede, 2001, p. 215). Masculinity-femininity measures the degree to which masculine values like assertiveness, achievement, earnings, competition, recognition, advancement, and competitiveness prevail over feminine values like caring for others in interpersonal relationships. The scores can range from 5 to 95 with higher scores reflecting masculinity and lower scores reflecting femininity. The mean score is 49 and standard deviation is 18 (Hofstede, 2001, p. 286). Uncertainty avoidance measures the degree to which a society as a whole accepts uncertainty in its daily life. The scores can range from 8 to 112 with higher scores reflecting high uncertainty avoidance and lower scores reflecting low uncertainty avoidance. The mean score is 65 and standard deviation is 24 (Hofstede, 2001, p. 151). Power distance measures the degree to which people expect and accept that power and status are distributed unequally among its members and refers to the emotional dependence on more powerful people. The scores can range from 11 to 104 with higher scores reflecting high power distance and lower scores reflecting low power distance. The mean score is 57 and standard deviation is 22 (Hofstede, 2001, p. 87).

A country's cognitive institutional component reflects the knowledge widely shared among individuals (K. Parboteeah, et al., 2008). A popular measure of the cognitive component for cross-national researchers is a single indicator measure, mean years of schooling, which

reflects the extent of educational achievement including basic, tertiary, and advanced (K. Parboteeah, et al., 2008; K. P. Parboteeah & Cullen, 2003; K. P. Parboteeah, John, & Lrong, 2004). The mean years of schooling is the “average number of years of education received by people ages 25 and older in their lifetime based on education attainment levels of the population converted into years of schooling based on theoretical durations of each level of education attended” as reported in the United Nations *Human Development Report* (Barro & Lee, 2010). The scores can range from 1.2 years to 12.6 years with higher scores reflecting higher levels of educational achievement and lower scores reflecting lower levels of educational achievement. The mean score is 7.52 years and the standard deviation is 3.01 years.

A country’s regulative institutional component consists of those existing laws and rules in a particular national environment which promote certain types of behaviors and restrict others (Kostova, 1997). A popular measure of the regulative component is the *Index of Economic Freedom* published by the Heritage Foundation and Wall Street Journal (Bjørnskov & Foss, 2008; McMullen, et al., 2008). “The index of economic freedom uses 50 independent variables grouped into 10 categories to score countries. The categories include trade freedom, fiscal freedom, freedom from government, monetary freedom, investment freedom, financial freedom, labor freedom, property rights, business freedom, and freedom from corruption. Currently, the index weights each of these factors equally and scores them on a scale of 1 to 5, in which 1 indicates conditions most conducive to economic freedom and 5 is least conducive” (McMullen, et al., 2008, p. 886). The scores can range from 2 to 90 with higher scores reflecting higher levels of economic freedom and lower scores reflecting lower levels of economic freedom. The mean score is 59.49 and the standard deviation is 11.55.

Control Variable

Income inequality is a common macro-environmental factor used in assessing international market opportunities and was used as a control variable in this study (Douglas & Craig, 2011). “Beyond being primary indicators of market potential, there is ample evidence that macro-environmental factors exert influence on underlying consumption values and behavior” (Douglas & Craig, 2011, p. 152). The GINI index measures the level of inequality in a society. The GINI measures the extent to which the distribution of income among individuals or households within a country deviates from an equal distribution (K. P. Parboteeah & Cullen, 2003). A society that scores 0.0 on the GINI scale has perfect equality in income distribution; while a score of 1.0 (or 100) indicates total inequality where only one person corners all the income (CIA, 2009). The scores can range from 23 to 71 with higher scores reflecting higher levels of income inequality and lower scores reflecting lower levels of income inequality. The mean score is 40.06 and the standard deviation is 10.12. The GINI scores used in this analysis represent the latest available data published from the 2009 *CIA World Factbook* (CIA, 2009). The most recent GINI data for each country was published between 2003 and 2009 with the exception of New Zealand, which was last updated in 1997.

CHAPTER 4: DATA ANALYSIS AND FINDINGS

Multiple regression was used to examine the influence of independent variables on direct selling IMS. Multiple regression was the appropriate method of analysis for my research question which consisted of a single metric dependent variable and multiple metric independent variables. It allowed for the examination of more sophisticated research hypotheses than was possible using simple correlations. Additionally, multiple regression is "robust" and less sensitive to violations of assumptions such as the normal distribution of errors and the independence of observations. All variables were standardized to eliminate any effects due to scale differences (Hair Jr, et al., 2010). The result was a set of variables with a mean of zero but retaining their unique variability (Hair Jr, et al., 2010). A test for multicollinearity was performed using variance inflation factors (VIF). VIF scores ranged from 1.2 to 3.0. No evidence was found to suggest issues with multicollinearity. Table 4 reports means, standard deviations, and correlations for all variables examined in the analysis. Table 5 reports the complete multiple regression analysis including standardized beta weights and significance levels. This analysis used measures from 2009 with the exception of Hofstede's cultural measures and the GINI Index, which are relatively stable from year to year (Chui & Kwok, 2008; Douglas & Craig, 2011; Hsing, 2005).

Table 4: Pearson's Correlation Matrix, Means, and Standard Deviations

	Mean	Standard Deviation	VIF	Sales/GDP	GINI Index (CIA.gov)	Individualism – Collectivism	Masculinity – Femininity	Uncertainty Avoidance	Power Distance	Mean Years of Schooling UNDP.org (2009)	Economic Freedom Index Heritage Foundation WSJ (2009)
Sales/GDP	21.33	21.36		1							
GINI Index (CIA.gov)	38.11	10.18	1.80	.461**	1						
Individualism – Collectivism	59.45	21.48	3.00	-.544**	-.574**	1					
Masculinity – Femininity	48.51	24.86	1.20	.131	.083	.032	1				
Uncertainty Avoidance	51.55	20.22	1.31	.167	.015	-.214	.043	1			
Power Distance	66.43	24.32	2.60	.338*	.403**	-.704**	.249	.234	1		
Mean Years of Schooling UNDP.org (2009)	9.67	1.97	2.62	-.249	-.535**	.608**	-.017	-.052	.515**	1	
Economic Freedom Index Heritage Foundation WSJ (2009)	67.91	10.40	2.50	-.370**	-.226	.503**	-.113	-.392**	.571**	.631**	1

** . Correlation is significant at the 0.01 level (2 – tailed).

* . Correlation is significant at the 0.05 level (2 – tailed).

Table 5: Regression Analysis Predicting Direct Selling IMS

	Hypotheses	Support	Control	Standardized Beta
Control Variable				
GINI Index			.461 ***	.347 *
Independent Variables				
Normative				
Individualism – Collectivism	H1	Supported		-.599 **
Masculinity – Femininity	H2	Not Supported		.151
Uncertainty Avoidance	H3	Not Supported		-.051
Power Distance	H4	Not Supported		-.267
Cognitive				
Mean Years of Schooling	H5	Supported		.425 *
Regulative				
Economic Freedom Index	H6	Supported		-.415 **
R ²			.212	.455
Adjusted R ²			.196	.366
Δ Adjusted R ²				.170
F			13.217 ***	5.199 ***
n=51, * <.05, ** <.01, *** <.001, standardized beta weights reported				

Results

The multiple regression equation was significant ($F = 5.199$, $p = 0.000$) and had excellent explanatory power ($R^2 = 0.455$, adjusted $R^2 = 0.367$). The multiple regression equation provided additional explanatory power beyond the control variable ($\Delta R^2 = 0.243$, Δ adjusted $R^2 = 0.170$). Thus, the model is significant and explains an additional 17 percent of the variance beyond the control variable.

Four normative factors were tested: individualism – collectivism, masculinity – femininity, uncertainty avoidance, and power distance. Hypothesis 1 (individualism - collectivism) was significant and negatively related to direct selling IMS ($\beta = -0.599$, $t = -3.069$, $p = 0.004$) indicating that collectivist societies represent attractive markets for direct selling due

to the ability for direct sellers to leverage their vertical and horizontal social networks thus providing support for H1.

No support was found for H2 (masculinity - femininity) ($\beta = 0.151$, $t = 1.223$, $p = 0.228$) indicating that the masculinity – femininity continuum is not a significant determinant of direct selling IMS. The relationship between uncertainty avoidance and DSIMS (H3) was found to be insignificant ($\beta = -0.051$, $t = -0.398$, $p = 0.692$) indicating that the uncertainty avoidance dimension is not a significant determinant of direct selling IMS. Finally, H4 (power distance) was not supported ($\beta = -0.267$, $t = -1.473$, $p = 0.148$) indicating that the power distance dimension is not a significant determinant of direct selling IMS.

Hypothesis 5 (the cognitive factor of education) was significant and positively related to direct selling IMS ($\beta = 0.425$, $t = 2.330$; $p = 0.025$) indicating that societies with higher levels of education achievement have a larger pool of potential direct sellers and consumers, resulting in attractive markets direct selling thus providing support for H5.

Hypothesis 6 (the regulative factor of economic freedom) was significant and negatively related to direct selling IMS ($\beta = -0.415$, $t = -2.330$, $p = 0.025$) indicating that reductions in economic freedom may reduce the attractiveness of traditional occupations and increase the attractiveness of direct selling as an alternative or supplemental occupation, resulting in attractive markets for direct selling thus providing support for H6.

CHAPTER 5: CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

This study extends IMS literature by using institutional theory to develop conceptual links between country level factors of market attractiveness and IMS. More specifically, this study examines the extent to which institutional theory and cross-national differences can predict attractive markets for direct selling. The study hypothesizes that a country's institutional profile, based on its normative, cognitive, and regulative components, can predict the relative level of market attractiveness of direct selling IMS. This study contributes to the international marketing literature by (1) using institutional theory to predict IMS; (2) using dimensions of culture as a primary screening variable; (3) examining a broad range of developed, developing, and emerging economies; and (4) examining a marketing channel that sells product and services from multiple industries to consumers. The hypotheses were tested over a sample of 51 countries representing 91 percent of the global GDP. The analysis provided initial empirical support for H1 (individualism – collectivism), H5 (education), and H6 (economic freedom). The regression results demonstrate that the normative, cognitive, and regulative components of institutional theory are significant predictors of market attractiveness for direct selling IMS.

This study found that the more collectivist a country, the greater the level of market attractiveness for direct selling. In collectivist societies groups and family relationships are valued over individual needs and objectives. In the collectivist “we” culture, family ties are created with individuals, socially integrating them into one's group in exchange for mutual loyalty and support. In this tightly-knit societal framework, direct sellers can share products and

business opportunities with friends and associates by leveraging their vertical and horizontal group relationships (Carmichael, 1993). Members of collectivist societies embrace this sharing and supporting function within their network, which has been found to help explain direct selling performance (Lan, 2002; Lin, 2007; Pratt & Rosa, 2003).

Three additional normative factors of culture (masculinity - femininity, uncertainty avoidance and power distance) were examined. While these factors describe important characteristics of successful direct selling performance based on the literature, they did not play a significant role in predicting market attractiveness. One possible reason may be sales force turnover. While these three dimensions of culture may reflect positive environments for recruiting direct salespeople, they may also account for high levels of turnover. Sales force turnover is one of the biggest challenges facing direct selling firms, whose turnover can exceed 100 percent each year, negatively “impacting the size and continuity of the sales force producing the firm’s revenues” (T. Wotruba, et al., 2005, p.92).

Previous research has identified meeting personal expectations through early sales results as a key indicator of salesperson success and the intention to quit or stay (T. R. Wotruba & Tyagi, 1991). Masculine environments share the learned behavior of assertiveness and competitiveness, which are characteristics of successful direct sellers (Coughlan & Grayson, 1998; Peterson & Wotruba, 1996; Pratt & Rosa, 2003). Salespeople from masculine societies are expected to aggressively implement their sales plan. There is the possibility that once they have contacted their friends and family identifying future sales prospects may prove challenging, limiting their initial success. This lack of early success may cause these salespeople to deemphasize direct selling and focus on other types of sales opportunities, increasing direct sales turnover.

Low uncertainty avoidance societies embrace risk, a key element in establishing successful direct selling businesses (Cort & Shanklin, 1998; Lin, 2007). Salespeople from low uncertainty avoidance societies are willing to try something new. There is the possibility that with a limited network to leverage, the sales process becomes a numbers game and sales success may be elusive. By not meeting their personal objectives, these salespeople may quickly become disenchanted and try other options for achieving their income needs, increasing direct sales turnover.

Low power distance societies emphasize individual equality, freedom, and work ethic which are often characterized by the equality of opportunity found in direct selling (Lin, 2007). Salespeople from a low power distance society are hard workers, who embrace equality and may see everyone as a sales prospect. There is the possibility that these salespeople may have an inability to differentiate between good and bad sales prospects, which may limit their potential success, reduce their satisfaction with the direct selling opportunity, and increase sales turnover.

The common theme in applying Hofstede's cultural dimensions to market attractiveness is the ability to leverage one's social network, a collectivist society characteristic that appears to be the critical link in predicting market attractiveness. The expectation is that salespeople from collectivist societies experience quick success due to their ability to leverage a large social network. By meeting early expectations, these salespeople are likely to continue pursuing direct selling opportunities, reducing turnover and maintaining a more stable sales force.

This study found that societies with more productive and successful education systems are attractive markets for direct selling. These societies have a larger pool of potential direct sellers and consumers. More and more individuals with higher levels of education are choosing direct selling as an alternative to traditional employment, often as a part time activity to

supplement income. Similarly, direct selling consumers tend to be younger, higher educated, and more affluent than those who have not purchased a direct sales product. Previous research has found education to be an indicator of the relative economic development of a society, such that societies with high levels of education attainment are positively related to self-employment, entrepreneurship decisions (Spencer & Gomez, 2004). In this study societies with higher levels of education attainment are also attractive markets for direct selling IMS.

This study also found that the more restrictive a society's regulative environment, the greater the market attractiveness for direct selling. The regulative factor of institutional theory considers the relative level of economic freedom and examines the relative openness or restrictiveness of a society. In restrictive regulatory environments, opportunities for traditional employment are reduced, often causing individuals to seek alternative forms of income. The increase in the number of disenfranchised individuals leads to a larger pool of potential direct sellers. These individuals are more likely to consider alternative ways to earn additional income on a full or part time basis, such as direct selling. Women may provide a useful lens to examine the opportunities created for direct selling in restrictive regulative environments. Women represent the disenfranchised in many societies (Gornick, 2004). Often their opportunity to earn a living has been reduced by limited job access and economic opportunities when compared to men (Gornick, 2004; Lauerová & Terrell, 2007). Direct selling provides women an alternative option for earning extra income to support the family. This factor may be one of the reasons why women comprise 76 percent of independent direct sellers globally, with 79 percent participating in direct selling on a part time basis (WFDSA, 2011).

Thus, this study concluded that the normative, cognitive, and regulative factors of institutional theory play a significant role in determining attractive markets for direct selling. Hence, institutional theory and cross-national differences are predictors of direct selling IMS.

Limitations

This study contains a few limitations. First, the sample was based on international secondary data. There may be issues with the reliability and consistency of the secondary data across 51 countries. There are known issues in the reliability and validity of international data. Even though the sources are well known, they are still susceptible to variability in the data gathering process between countries. For example, transitional economies have been highlighted for the suspect nature of their data reporting in international business (N. K. Malhotra, Agarwal, & Peterson, 1996). The direct selling sales data is gathered by the direct selling associations within each country and reported to the governing international body. The quality and consistency of the direct selling data gathering process may vary between nations. Additionally, the sample size is small such that only large statistical effects can be detected.

Second, the research design uses data developed in different time periods. For example, Hofstede utilized base data collected from an IBM international employee attitude survey program between 1967 and 1973. Additionally, this study uses the latest available data for the GINI index published by the CIA *World FactBook*. GINI index data is gathered periodically from each country. The most recent GINI data for each country was published between 2003 and 2009 with the exception of New Zealand, which was last updated in 1997.

Third, the research design is predictive but not causal. While cross-national research can predict systematic differences, the nature of the evidence is inclusive (Oyserman & Lee, 2008). “Cross-national research is insufficient to argue for a causal process, and comparative data

cannot specify if effects are due to both individualism and collectivism, only individualism, only collectivism, or other factors (including other aspects of culture)” (Oyserman & Lee, 2008, p. 311). Experiments can be used to examine causality, but in cross-national research it is not possible to manipulate cultural variables by manipulating societal structures themselves.

Fourth, the direct selling activity is predominately a female activity, yet the Hofstede study was predominately male. Hofstede (2001, p. 283) examined work goals between men and women. He determined that occupational work goal factors differed by gender and occupation, but the occupation differences outweighed gender differences. While his sample consisted mostly of men, he controlled for the percentage of women in the sample as if the percentage of women was equal to the percentage of men. He found that “the basic ordering of the countries was hardly affected” (Hofstede, 2001, p. 285).

Due to the exploratory nature of this study and the use of secondary data, the conclusions may need to be validated with future studies. Measurement error is not taken into account using the current statistical method – regression.

Future Research

There are several opportunities for future research. First, marketers should consider using institutional theory in other marketing contexts. This study examined institutional theory at the country level; future studies can examine institutional theory at the firm level across multiple countries and see if the results are confirmed. Additionally, the study design can be used in other marketing contexts, such as franchising, to see if institutional theory predicts IMS at the country and firm level.

Second, direct selling is often characterized as an entrepreneurial activity. Future studies can examine institutional theory and see if the direct selling entrepreneurial activity is predicted

at the country and firm level. Follow on studies can utilize primary data to examine the relationship between entrepreneurial and direct selling activity across multiple countries or country clusters.

Third, studies can further examine the normative factor of institutional theory. The common theme in applying Hofstede's cultural dimensions to market attractiveness is the ability to leverage one's social network, a collectivist society characteristic. This social sales process involves the sharing of products and opportunities and is likely to be culture bound, because the relationship is culturally coded (Bagozzi, Wong, Abe, & Bergami, 2000; Han & Shavitt, 1994; Lee, 2000; Usunier & Lee, 2009). "The same consumer may make different purchase decisions depending on who is involved in the decision making process or likely to use the product. Thus, the network relationship is likely to moderate the influence of culture on product purchase decisions" (Usunier & Lee, 2009, p. 108). It would be interesting to examine a potential moderating relationship between individualism-collectivism and masculinity-femininity, uncertainty avoidance, and power distance on decisions to purchase a direct sales product.

Fourth, since the development of Hofstede's dimensions of culture, other scholars have proposed additional views on culture that should be considered. For example the Globe study (House, Hanges, Javidan, Dorfman, & Gupta, 2004) developed nine cultural dimensions: performance orientation, uncertainty avoidance, humane orientation, institutional collectivism, in-group collectivism, assertiveness, gender egalitarianism, future orientation, and power distance. While researchers argue the similarity and differences of Hofstede's and Globes dimensions, it would be interesting to examine the normative factor from the Globe point of view and see if the findings are confirmed.

Fifth, individual country characteristics could be examined in greater detail. For example, examine the differences between developed, developing, and emerging countries to see if the relative development of the economy affects market attractiveness. Additionally, examining the length of time direct selling has been active in a country, in essence its stage in the product lifecycle, might provide interesting findings. For example, Japan is often describe as a mature or saturated direct selling market, while South Africa is identified as a relatively new market for development.

Lastly, the timeframe of this study was 2009, a very bad year in the global economy. It would be interesting to examine additional time periods to see if the findings are confirmed, especially in years not affected by the global financial collapse.

Managerial Implications

Can theory help managers predict the most attractive markets? This study found that institutional theory had good explanatory power in predicting the most attractive markets. In the case of direct selling, attractive markets are characterized by countries that have a collectivist culture, high levels of education attainment, and restrictive regulative environments. This study provides theoretical and empirical support for the normative, cognitive, and regulative components of institutional theory in international market selection. These results suggest that managers should use a more theoretical approach in their international market selection process.

In the direct selling example, the majority of companies are located in developed economies. Yet, these countries may no longer have the optimum environment for the direct selling approach. In the United States, there are more than 1500 direct selling firms that may consider international expansion opportunities in the future. Avon Corporation, a leading direct

selling company based in the United States, is a case in point. Avon reports 68 percent of its business from emerging and developing markets (Avon, 2010).

The most attractive markets for direct selling predicted by the institutional theory regression model are represented by developing and emerging economies in Latin America (e.g., Panama, Ecuador, Peru, Venezuela, Colombia, Argentina, Brazil, Chile, and Mexico), Asia (e.g., China, Malaysia, South Korea, and Philippines), and Eastern Europe (e.g., Russia and Romania). Alternatively the developed countries in Europe represented the least attractive markets for direct selling expansion (e.g., Luxembourg, Ireland, Belgium, Switzerland, Netherlands, Austria, Denmark, and United Kingdom).

Table 6 reports the most attractive countries and Table 7 reports the least attractive countries for direct selling expansion based on three measures: sales, sales/GDP, and the institutional theory regression model predictions. Sales reflect the largest markets based on total sales. Sales/GDP adjusts total sales by the economic productivity of the country. The regression analysis predicts the most attractive markets based on the beta values developed in the study. The analysis uses 2009 data from credible organizations: United Nations, World Bank, CIA, WFDSA, and Heritage Foundation & Wall Street Journal.

Table 6: Most Attractive Markets for Direct Selling Expansion

Ranking	Sales		Sales/GDP		Multiple Regression	
	(Million \$USD)		(x 10,000)			
1	United States	28,330	Korea (Republic of)	94.21	Panama	14.664
2	Japan	22,464	Ecuador	73.36	Ecuador	14.567
3	China	10,990	Peru	68.78	Peru	14.451
4	Brazil	8,040	Thailand	59.11	Venezuela	14.448
5	Korea (Republic of)	7,843	Malaysia	58.77	Colombia	14.364
6	Mexico	4,824	Mexico	55.15	China	14.009
7	Germany	3,762	Colombia	54.10	Malaysia	13.987
8	Italy	3,361.2	Brazil	51.10	Korea (Republic of)	13.986
9	Russian Federation	3,062	Japan	44.32	Russia	13.979
10	France	2,413	Argentina	37.43	Philippines	13.979
11	Thailand	1,559	Venezuela	34.43	Argentina	13.951
12	United Kingdom	1,397	Philippines	29.93	Brazil	13.886
13	Colombia	1,266	Russia	24.86	Chile	13.843
14	Australia	1,248	China	22.04	Mexico	13.719
15	Canada	1,225	South Africa	21.45	Romania	13.705

Note: Multiple regression prediction formula: $IMS = \alpha + \beta(z \text{ GINI}) + \beta(z \text{ Normative - individualism}) + \beta(z \text{ Education}) + \beta(\text{Regulative})$

The analysis suggests that Latin America may be a very attractive region for the direct selling expansion. On a global basis, the Latin American direct selling market appears to be underdeveloped, representing \$18.5 billion in sales compared to \$28.3 billion in sales for the United States (WFDSA, 2011). Yet, two global direct selling firms headquartered in the U.S. have realized the opportunity in Latin America. Both Mary Kay Corporation and Avon Products generate more sales from Latin American than the U.S. In the case of Avon Products, the Latin American market is twice the size of the U.S. market, \$4.5 billion versus \$2.2 billion (Avon, 2010).

Table 7: Least Attractive Markets for Direct Selling Expansion

Ranking	Sales		Sales/GDP		Multiple Regression	
	(Million \$USD)		(x 10,000)			
42	Denmark	126	Hong Kong	6.88	Luxembourg	12.201
43	Greece	120	United Kingdom	6.43	Ireland	12.158
44	Slovakia	99	Belgium	4.98	Belgium	12.142
45	Portugal	95	Spain	4.19	Switzerland	12.121
46	Ireland	74	Portugal	4.08	Netherlands	12.028
47	Bulgaria	69	Denmark	4.07	Canada	12.013
48	Uruguay	52	Greece	3.65	Austria	11.917
49	Panama	31	Ireland	3.27	Denmark	11.829
50	Estonia	17	Luxembourg	2.66	Australia	11.739
51	Luxembourg	14	Netherlands	1.65	United Kingdom	11.469

Note: Multiple regression prediction formula: $IMS = \alpha + \beta(z \text{ GINI}) + \beta(z \text{ Normative - individualism}) + \beta(z \text{ Education}) + \beta(\text{Regulative})$

This study provides managers with some decisional heuristics about the market attractiveness of different countries for global expansion. In the case of direct selling, this study found that attractive markets are characterized by countries that have a collectivist culture, high levels of education attainment, and restrictive regulative environments. These results suggest that managers should consider a more theoretical approach to IMS when identifying countries for possible expansion. Additionally, this approach should allow for an increased success rate due to the recognition of institutional and cultural constraints/facilitators.

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