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**AN EXAMINATION OF ANTECEDENTS OF  
INTERNATIONAL RETAIL INVOLVEMENT**

A Dissertation  
Presented for the  
Doctor of Philosophy Degree  
University of Tennessee, Knoxville

Irena Vida  
May 1997

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## DEDICATION

This dissertation is dedicated to my parents,  
Mrs. Majda and Mr. Janko Vida  
who taught me to rise to life's challenges  
regardless of the part of the world I may be in.

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## ABSTRACT

International retail expansion has become an increasingly viable strategic growth option for retail firms in developed and mature retail markets. As a result, an understanding of characteristics and behavior of retail firms expanding internationally becomes vital both for retail practitioners who need to make rational choices and for the academic community attempting to explain international marketing phenomena. The purpose of this research was to examine the present and anticipated international involvement of major retail organizations operating in the U.S., and to investigate the internal firm and industry specific determinants of international retail involvement (IRI). The concept of IRI has been defined as a market-serving involvement in retail activities in more than a single national environment. Grounded in the internationalization process theory, this study involved the development and testing of a model of IRI. The basic premise of the model was that the following six constructs act as antecedents to a retail chain's IRI: the retail differential advantage, the firm's knowledge, the firm's experience, the perceived attractiveness of international expansion, the domestic market growth opportunities and the retail firm size. The data was collected via mail-survey from an expert sample of retail executives with the strategic responsibility for a retail chain. Using a logistics regression as the primary statistical analytic method to test the proposed relationships, the results indicated that the model allows for a better prediction of IRI with the significant independent variables in the model than without them. The overall pattern of findings highlighted the pervasive influence of the firm's knowledge as indicated by its information seeking behavior, the firm's experience as indicated by its management capabilities, and the perceptions of attractiveness international expansion.

Only a partial support was found for the role of a retail differential advantage and the firm's size in IRI. However, the lack of domestic growth opportunities and the firm's experience as measured by its foreign sourcing activities were not found to determine IRI in this study.

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# CHAPTER 1

## INTRODUCTION

In contrast to manufacturing industries, which have a strong tradition in international business, the retail industry has until recently remained relatively national in its orientation. One of the most conspicuous reasons for this is the position of retailing in the distribution channel; serving the final consumer, retailers are bound to the local cultural and external environment (Martenson, 1988; Salmon and Tordjman, 1989; Kacker, 1988; Treadgold, 1990). However, internationalization of retail activities is becoming an increasingly viable strategic option to sustain the corporate growth of retail firms, particularly in the developed economies and mature retail markets of Europe, the United States, Canada, Japan and Australia. Despite the lack of publicly available statistics on international involvement of retail companies across countries, recent industry analyses provide evidence of increased instances of retailers trading outside their national borders (Coopers & Lybrand, 1995; Corporate Intelligence, 1995).

According to industry experts and analysts, the pursuit of global business operations will continue to be a prominent trend as the retail industry enters the new millennium. Treadgold (1988) suggested that one of the most prominent forces "shaping retailing in the 1990s and beyond will be continuing internationalization of what has been historically only domestic activity" ( p. 9). The topic of retail internationalization has attracted considerable attention among researchers, particularly in Europe where the progress in retail internationalization has been faster than in the United States. Some researchers have gone so far as to claim that within next decade, the lines between investigations of international and domestic retailing will become increasingly blurred if the industry continues its international expansion at the same pace (Akehurst and

Alexander, 1995a). While this might be more true for European retailers, others also believe that isolating international retailing from domestic activity is important at the present time, as national borders still separate different political, legal, governmental and cultural environments (Dawson, 1994).

While a resource-seeking international involvement has been an important aspect of U.S. retailers' activities for decades, a market-serving form of international retail involvement is also becoming a viable option for American retailers. Particularly retail store chains, recognizing that they can no longer grow at an acceptable rate in the domestic market or that they wish to leverage their core competencies to potentially attractive foreign markets, increasingly consider international expansion as an avenue for future growth (Coopers and Lybrand, 1995). Factors contributing to this trend include a saturated and overstored domestic market caused by the rapid expansion of new stores in the last 15 years, fierce competition in the U.S. retail market, increasing vertical integration in the distribution channel, mergers and acquisition activities in the 1980s, and the general vulnerability of retailers to the business cycles and economic conditions of the home market (Sack, 1993; U.S. Retailers in Europe, 1994).

U.S. retailers have been slower than their European counterparts to consider international expansion as a means for future growth. However, a number of U.S. retail chains have already explored international markets, and several other U.S. retail chains are planning, according to reports in the trade literature, to expand their retail activities beyond the domestic market. As a result of these trends, an understanding of the processes and patterns, attitudes and behavior of retail firms expanding operations internationally becomes increasingly vital both for practitioners who need to make rational choices and for the academic community attempting to explain international marketing phenomena.

The purpose of this study is to examine the present international involvement of major U.S. retail organizations and to investigate the internal firm and industry specific determinants of international retail involvement (IRI). The concept of IRI has been defined as market-serving involvement in retail activities in more than one national environment. This study includes the development and testing of a model of the IRI with the emphasis on retail firm and industry specific determinants of IRI.

With the exception of some empirical investigations of U.S. direct retailers (Morganosky, 1993a; 1993b, Topol and Sherman, 1994), the international retail involvement of U.S. retailers has been for the most part ignored in academic research. Current contributions primarily emphasize the results of the implementation of international expansion in strategic terms rather than organizational or intra-firm dimensions, and lack focus and theoretical basis. The existing knowledge of U.S. international retail involvement is presently confined to non-analytical, descriptive and prescriptive contributions by large consulting companies (Coopers and Lybrand, 1993; 1995; Corporate Intelligence, 1995; Shern, 1994; Globalization 2000, 1992).

International retail involvement is a complex phenomenon and presently a poorly understood one. The need for more in-depth investigations of various aspects of international retail involvement, such as determinants of the triggers of the process, the nature of the decision-making process, and relationships between organizational and strategic dimensions, as well as the need to broaden the conceptual base by drawing on the existing literature in international business, marketing, management and industrial behavior, have been acknowledged in recent writings (Akehurst and Alexander, 1995; Brown and Burt, 1992; Whitehead, 1992). These authors specifically expressed the need for the international retail literature to be integrated into the broader business and economic fields. Dawson (1994), on the other hand, cautioned that this might not be

appropriate since the existent explanations of internationalization of firms focus on manufacturing industries. According to this author, differences in organizations and management between manufacturing firms and firms in retail industry might hinder the exact application of international business theories to retail internationalization.

With respect to the general international business field, several authors investigating advances in international marketing have noted that academic efforts in international marketing lag behind the efforts in other marketing subdisciplines (Bradley, 1987; Li and Cavusgil, 1991). It has been suggested that the reasons for this lie in a) methodological and conceptual difficulties, b) the absence of theoretical and conceptual frameworks, and c) a failure to draw on the existing body of knowledge (Bradley, 1987; Cavusgil and Nevin, 1981; Douglas and Craig, 1992; Reid and Rosson, 1987).

This research attempts to overcome some of the deficiencies mentioned above by integrating previous conceptual and empirical research contributions in the area of business internationalization and retail internationalization specifically. By developing a conceptual framework for international retail involvement and subsequently testing the proposed hypotheses empirically, this research offers a better understanding of the determinants of one of the more complex and critical strategic decisions many retailers face in the increasingly global environment.

The present study examines the determinants of international retail involvement of major retail organizations operating in the United States. An industry specific approach has been recommended for the examination of phenomena related to a firm's internationalization (Turnbull, 1987; Millington and Bayliss, 1990; Rosson and Reid, 1987) in order to make consistent operationalizations of variables possible. Also, as Pellegrini (1994) has suggested, confining the analysis to a single industry enables a researcher to investigate industry-specific components. Therefore, while the conceptual

model on which this research is based includes constructs from previous theoretical perspectives, the conceptualization and operationalization of these are modified so as to reflect the specifics of the retail industry.

## **CHAPTER 2**

### **INTERNATIONALIZATION IN THE RETAILING INDUSTRY**

This chapter explores the evolution of retail internationalization and its various aspects, and examines retail internationalization literature with the emphasis on the U.S. retail industry and its significance. Furthermore, this review of the retail internationalization literature provides explanations of the basic concepts, discusses the external forces driving retail internationalization, and offers insights into the present state of international retailing in the world markets and in the United States. The evidence of the international expansion of U.S. retailers, which appears to be evolving as an alternative opportunity for retail companies to achieve future growth, is also discussed in this chapter.

#### **The Evolution of Retail Internationalization**

In comparison to manufacturing industries, which have been extensively globalized for decades, the retail industry has remained relatively national in its orientation. Various explanations for this have been offered in the literature, but essentially they all refer to the position of retailing in the distribution channel; serving the final consumer, retailers are bound to the local cultural and external environment. Although any transfer of retail store operations across space necessitates the need to respond to the culture of customers, this need is particularly apparent when retailers cross national borders (Dawson, 1994; Martenson, 1987).

Other factors contributing to retailers' historical constraint to domestic markets include the small-scale nature of earlier retail operations, lacking financial resources and managerial expertise, the high priority placed upon local retail productivity, upon national

expansion and upon diversification strategies, and the actual and perceptual political and economic barriers among the countries (Alexander, 1990; Salmon and Tordjman, 1989; Treadgold, 1990). In addition, formats and operational strategies of retail institutions differ from country to country as a result of dissimilar levels of economic growth and variations in cultural, social, legal, physical and technological environments (Kacker, 1988a).

Retailers' linkages with the supplier side of the channel, with wholesalers and manufacturers, have been more prone to globalization. For instance, as early as in the mid 1800s, giant wholesalers and later department stores began to establish off-shore buying offices (Globalization 2000, 1992). In the past few decades, global sourcing has become one of the most established activities and a critical precondition for the competitiveness of manufacturing and retailing firms in most of the developed countries around the world. Initially, the main incentive behind the use of foreign sourcing strategies was to take advantage of lower-cost raw materials and manufactured products due to wage differentials. Fierce competition, limited profit enhancing opportunities, and pressures on margins and costs led retailers to pursue alternative strategies by reducing the costs of their supplies (Liu and McGoldrick, 1995). Initial problems of low and unpredictable product quality, long lead times, slow deliveries and trade restrictions have been overcome as retailers have gained more experience in international business and as trade barriers across countries have eased (Dickerson, 1991; Kacker, 1988a). Today, foreign sourcing represents an opportunity for retailers to obtain a wider variety and assortment of products to offer to consumers in the home-country as well as to obtain higher quality at lower prices, exclusivity and consistency of supply.

Retail globalization is no longer limited to the retailer's foreign sourcing activities. In contrast to decades ago, when only a few retail companies aggressively pursued the

global expansion of retail operations, the global retail community has witnessed an acceleration of international retail marketing in recent years. Constrained by limited domestic market growth opportunities, European retailers took the lead in retail internationalization, but they were soon joined by retailers from other countries with developed economies, notably the United States, Canada, Japan and Australia (Coopers and Lybrand, 1995; Treadgold, 1991).

A number of retail analysts have noted that every aspect of the retail business will become increasingly international in the future. After discussing the global retail 'revolution' as a result of the rapidly increasing flow of capital, ideas and marketing activities among countries, Grabowsky (1989) stated: "Future retailers will be divided into two groups: the successful global thinkers who embrace new ideas and methods, and rapidly fading narrow-minded managers who fight change." (p.1). Other analysts have predicted a continuing trend in retail industries around the globe to be dominated by fewer and stronger retail organizations, which will be able to survive in a highly competitive environment by means of diversifying into different, innovative retail formats/concepts and by means of expanding to various geographical locations (Allen, 1993; Coopers and Lybrand, 1995; Sack, 1993).

### **Retail Internationalization: The Concept**

Almost everyone concerned with cross-national retailing activities recognizes retail internationalization as a complex phenomenon. Given the importance of retail internationalization for this study, and the different aspects of international retailing mentioned so far, there is a need to further explore this concept, particularly as the lack of an exhaustive definition has been widely noted among retail analysts.

The concept of retail internationalization can be seen as involving three distinct but interrelated phenomena: a) international or foreign sourcing, b) development of retail operations in international markets and c) international transfer of retail know-how. The first two have been introduced above. The last of these three forms of retail internationalization, which refers to international transfer of retail formats, ideas and practices, has evolved as a result of retailers the world over facing common problems in terms of their operating efficiencies and sophistication of strategies to reach targeted consumer markets (Kacker, 1988). The flow of retail expertise in new operating techniques and technological innovations can occur through the development of retail operations in developed retail markets (e.g., by means of joint ventures) or through international buying alliances, which have been particularly common in Europe (Robinson and Clarke-Hill, 1995). While this form of international retailing is important to retailers, considering that almost every retailer today faces marketing, merchandising, financial and operational impact from foreign competitors (Grabowsky, 1992), it can be considered as an undercurrent of retail internationalization and will not be explored further in this review.

The other two types of retail internationalization, foreign sourcing and development of international retail operations, can be distinguished in terms of the motivation of a retail company to expand its operations beyond the home market (i.e., resource-seeking or market-serving motivation for international involvement). Resource-seeking international involvement is generally directed at supplying products or other resource needs of retailers' home operations with either imports or foreign sourcing activities. As Liu and McGoldrick (1995) pointed out, there is an important distinction between international sourcing and traditional importing of goods, as the former indicates a more proactive stance of retail firms in the acquisition of sources of supply and a

deeper involvement in strategic decision making as to where, when, what, how much and from whom they buy. As mentioned above, competitive pressures in consumer markets in developed countries, in particular in the United States, have been forcing many retailers to engage increasingly in international sourcing activities to ensure competitive prices and greater product diversity.

The market-serving motivation of a retail company to expand its operations beyond the home market is directed at serving local retail markets in other countries and involves the development of retail operations. In this case, the retail company's outputs, which include products, services, know-how, retail formats, concepts and retail management techniques, are intended for consumption in international market(s). There are a number of alternative ways a retailer can choose to enter international markets and develop retail operations: licensing, in-store concessions, franchising, joint ventures, and partly or fully owned acquisitions of existing or new retail operations. Each of these options reflects a successively higher level of cost, control, commitment and risk for the international retailer (Bullard and Cronin 1988; McGoldrick and Davies, 1995). Exporting of retailers' merchandise (e.g. mail order) or private label goods is an additional way to engage in international retailing, although this form of international involvement, due to the 'untradable nature' of retail services, is not very common among retailers (Pellegrini, 1990).

The market-serving form of retail internationalization represents the major focus of this research. Throughout this study, it will be referred to as international retailing or international retail involvement. Various conceptualizations of international retailing have been proposed in the literature, but the lack of a clear, exhaustive definition has also been acknowledged (Pellegrini, 1994; Whitehead, 1992). As Akehurst and Alexander (1995) pointed out, "without a sufficiently robust lexicon, a subject [international

retailing] will dissolve into repetitive, disparate and unprofitable research programs" (p.204).

While the concept of international retail involvement as it refers to the objectives of this research will be conceptually and operationally defined in Chapter 3, the following comprehensive definition of market-serving retail internationalization has been proposed by Whitehead (1992, p.78).

"Internationalization is more than the outward-looking process of strategic advances, and can be defined as an incremental or radical process of change by which an organization changes externally the focus of its operations and internally the nature of its management decision making, value systems, and cognitive framework, to a more internationally responsive structure."

### **Factors Facilitating Retail Internationalization**

While only a few decades ago retailers believed that retailing was so culturally determined that it could not be 'exported' to other nations, this is no longer true as evidenced by the international activities of European, United States, Australian and Japanese retailers. Two questions arise from these observations: why is retail internationalization occurring now and what are the factors that paved the way for these developments?

Although European retail internationalization started in the early 1960s, the process has been accelerating on a global scale since the 1980s. Several changes in the external environment in which the international business is conducted have occurred during this period of time. Some of the most prominent changes are related to developments in information technologies, the homogenization of consumer tastes, life-

styles and preferences, the lowering of the political and trade barriers among nations, and an increasing sophistication of retail companies.

### **The Impact of Technology and the Homogenization of Consumer Demand**

Technological progress in the fields of electronic information, global media and communication, as well as in international distribution, resulting in lower costs of transportation, have been instrumental in the evolution of retail internationalization. The homogenization of consumer demand appears to be another prominent factor in internationalization of retailing.

Consumers in North America, Europe and the Far East are becoming increasingly similar in their preferences, shopping habits and attitudes. Many consumers visit, travel and shop in foreign countries, and they are familiar with various retail formats such as shopping malls, department stores, hypermarkets and convenience stores (Segal-Horn and Davison, 1992; Staff, 1993). The aspirations, expectations, tastes and product-brand preferences of consumers in industrialized countries appear to have become increasingly "universal", mainly as a result of the proliferation of international media (i.e., the Internet, TV, movies, music, videos, consumer electronics) and as a result of a narrowing of the income gap in the advanced economies (Forseter, 1993; Treadgold, 1988).

Bazko (1993) observed various consumer characteristics which are shared by Western world consumers and are particularly relevant to retailers. These characteristics, as the author emphasized, were until recently inherent to U.S. consumers; however, they are becoming more common in Europe and Asia. The global consumer is more knowledgeable and discerning than ever before, enjoys a greater level of disposable income and more discretionary time. Furthermore, the modern consumer desires

convenience, is increasingly price conscious, and exhibits a preference for retailers who offer reasonable prices, convenience and an enjoyable shopping atmosphere.

Segal-Horn and Davison (1992) explored the extent to which consumers across the globe have become influenced by similar social trends. They concluded that "homogeneity of tastes and preferences is a real issue for retailers that effects the way they segment their markets, distribute their products, and plan their merchandising strategies." (p.57).

### **Removal of the Trade Barriers**

Another external factor facilitating retail internationalization is related to the creation of free trade areas or trading blocks such as North American Free Trade Agreement (NAFTA), the European Union (EU), European Free Trade Association (EFTA), Closer Economic Relations (CER) between Australia and New Zealand, and evolving economic unions in Eastern Europe and among developing countries. The world is being divided into internally cohesive trading unions, the purpose of which is to encourage trade among the country-members of the integrated areas. However, as Treadgold (1988) noted, trading presence in one block should not exclude the possibility of exploiting opportunities in the country-members of another block.

The global business community was until recently involved in multinational trade negotiations for GATT (General Agreement on Tariffs and Trade) Uruguay Round, which has been replaced by the establishment of the World Trade Organization. This new institution covers a whole spectrum of trade issues, including quantitative restrictions, import licensing, tariffs and other barriers to market entry. A further objective of multilateral trade negotiations as well as separate bilateral discussions within the

framework of WTO is to reduce or in part eliminate restrictions on foreign investment (Summary of the Final Act of the Uruguay Round, 1997). The latter is particularly relevant to retailers who plan to expand into foreign markets by means of acquisitions or by setting up new ventures. The international retail community has much to gain from a successful implementation of the agreements reached within the WTO trade liberalization talks as it could provide a further impetus for the retail internationalization process.

### **Other Factors Facilitating Retail Internationalization**

Recent political events such as the fall of the Iron Curtain, the re-unification of Germany, and the emergence of the high growth potential, under-served markets of Eastern and Central Europe, particularly the Commonwealth of Independent States (CIS-former USSR), as well as the political and economic reforms in other parts of the world, e.g., China and South Africa, represent further factors increasing the pace of international retail expansion (Sternquist and Kacker, 1994). For instance, European retailers have eagerly begun to invest in high growth markets of Eastern Europe (Corporate Intelligence, 1994). This area also appeared to have an appeal for American retailers, although so far with a mixed success, as is the case of K-mart in the Czech Republic and Slovakia (Stores, August, 1996).

Treadgold (1990), focusing in his report primarily on retail internationalization in Europe, identified additional catalysts to retail internationalization, which are related to the increasing sophistication of retail organizations. These included the growing professionalism of retail management, the accumulation of international experience, the increasing international mobility of senior retail management, the evolution of new forms

of international financing and the presence of other international retailers as role models, including the internationalization of supplier companies.

**Current State of Retail Internationalization:  
Europe, Australasia, Canada and the United States**

The core of international retail activity currently takes place in the developed economies of Western Europe, the United States, Canada, Japan and Australia. Although no formal statistics exist as to the extent of international retail activities of individual retail companies in various countries, the recent study by Coopers and Lybrand (1995) 'Global Powers of Retailing' provides a listing of the 100 largest retail organizations around the world in 1994, most of which do have international operations.

Collectively, European retailers lead in terms of the number of companies listed (39 entries), as well as in terms of the extent of internationalization of these companies. The U.S. as a single nation dominates the Global Powers listing with 38 companies, followed by Japan with 16 retail organizations. The world's largest retailer in 1994 is Wal-Mart Stores with the sales \$ 82.5 billion, which is 57% larger than the second largest company, Metro Holding AG of Germany/Switzerland. According to this report, however, Wall-Mart does not lead in terms of its international activities, as it reported only 2.9 percent of its revenues to be generated from international sales and international presence in three international locations: Canada, Mexico and Hong Kong.

## Europe

The emergence of retailers trading outside their borders has been most prominent among the member countries of the European Union and the Scandinavian countries, with the European retailers having a significant presence in the U.S. (Kacker, 1985; Treadgold, 1988, 1991). European retailers have advanced the most aggressively in the development of international retail operations and in the formation of cross-border alliances in recent years.

The driving force behind the international expansion of European retailers lies in the relative absence of long-term growth opportunities within their relatively small and mature national markets as well as in the barrier-free EC 1992 Single Market environment. Northern European retailers have been particularly eager to move their operations into the under-developed retail markets of Spain, Portugal and Italy. A further impetus to retail transnationalization within Europe was provided by the collapse of communism and the introduction of market-oriented economies, German unification as well as the opening up of Eastern European countries (Sternquist and Kacker, 1994; Treadgold, 1991).

To further illustrate the pace at which European retailers have proceeded with retail internationalization, a recent report provides statistics showing that as opposed to the 1960s and 1970s when there were, respectively, 24 and 157 international retail operations in Western Europe, the 1980s and early 1990s have seen, 1221 such operations across Western European countries, totalling to 1,554 international retail presences, inclusive of Eastern Europe (Corporate Intelligence, 1995). The largest number of international retail operations can be found in Belgium and Luxembourg together, followed by the United Kingdom, Spain, France, Germany and the Netherlands.

Treadgold (1991) provided an extensive overview of European international retailers and noted, similar to the more recent Corporate Intelligence report (1995), that the operating formats and sectors of cross-border retailers have been predominantly in food (particular discount formats), hypermarkets, department store and specialty store (e.g., category killers in sectors such as toys, music, office products, computers, sports goods, books and do-it-yourself) formats.

The leading European retailers with a trading presence in various European countries, Australia, the United States and Japan include names such as German Aldi in the discount food sector; Laura Ashley, Marks and Spencer, both United Kingdom, and Italian Stephanel in the clothing sectors; Tesco of the United Kingdom in the food sector; Otto Versand, Germany, in mail-order, French Promodes and Carrefour in food and non-food hypermarket groups; Body Shop of the United Kingdom in skincare products, Swedish Ikea in furniture, and Vendex International group in the Netherlands in the department store, fast food and bookstore sectors (Coopers and Lybrand (1995), Corporate Intelligence (1995), Treadgold (1988; 1991).

European retailers have been especially aggressive in expanding into the U.S. market in the late 1980s, although this trend has reportedly declined in the most recent few years (Corporate Intelligence, 1995). The U.S. market has been attracting foreign retail investors for several reasons, including the size of the market, population, high levels of disposable income and an inclination to spend it on European goods. Also, a relatively unrestrictive environment for foreign entrants, lower costs of real estate, favorable leasing options, a stable political environment, and new retail concepts and technologies invented in the United States attracted Europeans into the United States (Kacker, 1985; Sack, 1993). Even though these conditions will likely continue to attract

foreign retail investors to the U.S. market (e.g., Japanese retailers), European retailers are presently concentrating their efforts within Europe (Sternquist and Kacker, 1994).

According to Treadgold's (1991) report, some of the best known U.S. retail organizations are now owned by European companies. In the period from 1980 to 1988, the total foreign investment into the United States increased by 400 percent, and reached \$ 14.77 billion in 1988, with European companies accounting for over 80 percent of all foreign investments in the United States (Survey of Current Business 1980-1988)<sup>1</sup>.

### **Australasia and Canada**

In the Far East, Japanese retailers have also been taking an increasingly international perspective to sustain their corporate growth, mainly due to the limited opportunities in their domestic environment. Today, Japanese retail presence is noted in Singapore, Thailand, Hong Kong, Australia, Europe and the United States (Coopers and Lybrand, 1993; 1995; Treadgold, 1991).

As mentioned earlier, Japan has second largest number of retail companies listed in the Global Powers of Retailing report (1995), although of 16 retailer conglomerates listed, only seven retailers have a retail presence in markets other than Japan. The most aggressive internationalists include Ito Yokado, Jusco and Mitsukoshi, which operate under various trading names, and in various retail formats, predominantly department store, discount store, mail order and specialty store. Their international presence is

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Reported in Treadgold (1991); Kacker (1985) also provides some figures on foreign acquisitions of U.S. retailers, but the statistics are less recent.

concentrated in Asian countries, whereas their international revenues range from 10 to 25 percent of total sales (Coopers and Lybrand, 1995).

Japanese involvement in U.S. retailing has not been as aggressive as in other industries, with a few exceptions such as the operation of Talbots womenswear and mail order business, which has been under Japanese ownership since 1988 (Jusco Co., Ltd.). The Japanese have also shown interest in U.S. department stores, and they are further exploring opportunities in Europe (Kacker, 1985; Treadgold, 1991).

Japan represents a highly competitive and value-driven retail market for international investors, a market which until recently has not received much attention from retail internationalists, primarily because of the combination of high costs, cultural differences and restrictive laws regarding retail establishments. U.S. retailers, however, have been fast to respond to the changing environment with lesser restrictions. For instance, Toys'R'Us, Blockbusters, Tower Records, Disney Stores and Time Warner are some examples of U.S. entries into this most attractive Asian market (U.S. Retailers in Europe, 1994).

Australia currently has two retail conglomerates listed among the top 100 retailers in the world: Cole's Myer and Woolworths Limited, both of which generated insignificant international revenues in 1994 and were present mainly in New Zealand. Coles Myer, for instance, expanded its operations to New Zealand in 1988, and has been considering further opportunities for growth outside the immediate Pacific region. According to Coopers and Lybrand (1995), global expansion into Australia is still difficult because of cultural and legal barriers, although U.S. retailers have been showing an increasing interest in this area.

Canada had two retail companies listed among the top 100 in the world in the Cooper and Lybrand's report (1995), although only the larger corporation of the two,

George Weston, which operates supermarkets under various trading names, has been aggressively expanding their operations into the United States. In 1994, George Weston generated over 20 percent of its sales in the United States.

U.S. retailers, however, have been interested in the proximity of the Canadian market, particularly after the implementation of Free Trade Agreement. Among the best known names and the most established U.S. retailers in Canada are Sears, Kmart, Wal-Mart and Toys'R'Us (Kacker, 1985; U.S. Retailers in Europe, 1994).

### **U.S. Retailing and the International Expansion**

Although the international expansion of U.S. retailers is not an entirely new phenomenon, U.S. retailers have been slower than their European counterparts to establish an international retail presence. Some of the reasons include favorable domestic market conditions throughout the 1980s, several yet unexplored markets within the United States, and extremely competitive conditions in the U.S. retail industry, which in 1992 generated over \$ 2,100 billion in sales (U.S. Retailers in Europe, 1994). Retail sales represented over 30 percent of the U.S. gross domestic product in the same year, indicating the importance of the industry for the economy of the country.

As several sources recognize, the U.S. retail industry has been, compared to retail industries in other parts of the world, one of the most innovative in terms of developing new retail formats/concepts, product specialties, means of distribution and technology. Some of the many retail innovations which started in the U.S. are the discounting retail format, category killer format, global branding, mail-order, retail entertainment formats (e.g. Disney store and Time Warner), TV and home shopping, factory outlet shopping and warehouse clubs. There have been numerous innovations in retail technology,

particularly in relation to telecommunication and computers. Most of these innovations were a direct result of the highly competitive conditions in the U.S. market, some of which include the vulnerability of this industry to the business cycle in the economy, and the fact that most retail companies are incorporated as public companies and therefore subject to pressures from their shareholders. In contrast to most European retail companies (which are for the most part family owned), U.S. retail companies have been forced to respond quickly to changing business conditions, leading to rapid changes in ownership, management structure and formats/offerings. Consequently, mergers and acquisitions account for the dynamic forces shaping retailing in the United States.

Earlier U.S. retailers were discouraged from expanding abroad due to restrictions of foreign governments regarding how and where foreign firms could operate, and the limitations of foreign investments to specific sectors or organizational arrangements (Sack, 1993; U.S. Department of Commerce, 1994). The higher costs of doing business in other countries, coupled with unfamiliar and complex distribution systems, cultural differences and merchandise preferences represented further obstacles for U.S. retailers interested in international expansion (Cirulli, 1993; Grabowsky, 1989; Kacker, 1985).

Examples of some U.S. retailers who failed while trying to break into foreign markets due to the reasons mentioned above include Sears Roebuck and Co., which opened three stores in Spain under its own name in 1960s but had to withdraw a few years later. J.C. Penney dropped its acquisitions in Belgium and Italy, and Federated Department Store, which used to have a large share of a Spanish chain, retreated from the European market completely (Cirulli, 1993; Kacker, 1985). The difficulties of these American retailers who pioneered their international operations after the Second World War were related to, as mentioned earlier, the cost of suitable premises, restrictive legislation concerning store operations, local management, inexperience in the

international business environment and the need for capital to finance national expansion of the parent company (Kacker, 1985).

### **Lack of Published Data on Internationalization of U.S. Retailers**

Presently, very limited information on the extent and the nature of U.S. international retail involvement is publicly available. Existing reports tend to be descriptive and focus on geographical expansion of major players which have had a long established international presence, as indicated above. Some of the underlying reasons for this situation, again, is the public nature of most U.S. retailer organizations with international ambitions. The stock market has shown adverse reactions to news of international expansion of retailers, considering that such investments show only long-term positive results and are associated with large risks (McGoldrick and Davis, 1995). As a result, companies in the earlier stages of international retail expansion are reluctant to share information and consider discussions regarding their international strategy as proprietary information. In order to illustrate the extent of past and current internationalization by U.S. retail companies, some reports will be summarized below.

Treadgold (1990) reported that of the 50 largest U.S. retailers in 1988, only ten had a retail presence outside the United States . The precise proportion of U.S. total exports accounted for by retailers is difficult to estimate, as merchandise trade flows are typically identified by the type of product rather than the type of organization. Direct Investment Abroad reports, which are published every five years, seem to be the only source where export data are listed by the type of organization (*Benchmark Survey 1989, U.S. Direct Investment Abroad*, 1992). The latest survey available shows that 50 U.S. retailers exported goods and services valued at \$ 200 million to 211 affiliated firms in

markets abroad in 1989. These figures included retailers of general merchandise, food, apparel, automobile, garden supplies, hardware, discount and catalog retailers as well as eating and drinking places (U.S. Industrial Outlook, 1994).

A more recent survey conducted by Ernst and Young (Shern, 1994) revealed the reluctance of the 250 largest retailers to expand internationally; of 237 companies included in the survey (included were also 27 restaurants), only 23 percent considered themselves global. Major factors facilitating the international expansion of these companies were opportunities for a specific retail format abroad, existence of high disposable income in markets abroad, limited domestic opportunities and saturation of the U.S. market. The top four geographical destinations of U.S. retailers were, according to this survey, Canada, followed by Mexico, the United Kingdom and Japan.

The most recent analysis of global retail powers by Coopers and Lybrand (1995) disclosed that the United States as a single nation dominated the list of world's largest retailers in 1994 with 38 retail conglomerates, of which only 13 had a presence in one other country than the United States. Out of these 13 U.S. international retailers, only six had a presence in more than one foreign country. These retailers operate under numerous trading names within various non-food sectors and a variety of different retail formats, most notably discount stores, warehouse clubs, specialty stores (category killers) and mail order.

### **Current Trends in U.S. Retail Internationalization**

In contrast to the general reluctance of U.S. retailers towards internationalization presented earlier, the trade literature provides evidence of U.S. retailers who have successfully moved into foreign countries, and several others who have serious

intentions of doing do. The list ranges from successful franchisors in the quick service industry such as McDonald, Pizza Hut, Burger King, Kentucky Fried Chicken, to discounters such as Sam's Club, Price Club, K-mart and Wal-mart and video stores such as Blockbuster Videos. U.S. specialty store formats have been particularly suitable for "exporting". Examples include well known names such as Toys'R'Us, The Gap, The Limited, Foot Locker stores, Athlete's Foot, L.L. Bean, Home Depot, Costco, Walt Disney Co., Land's End, Office Depot, Pier 1 Imports, Staples, TJX Companies and ComputerLand<sup>2</sup>.

U.S. mass merchandisers, however, have not been as well received in foreign markets, as illustrated earlier by the examples of Sears Roebuck & Co. and J.C. Penney. Also, Woolworth company, which opened its first operations outside the United States as early as 1907 and is still a leader among U.S. retailers in Europe, recently decided to sell off most of its European general merchandise stores and focus exclusively on specialty retailing, which, according to one of the Woolworth's chairmen, provides higher operating profits and offers more space for future growth. In Europe, the company plans to open 100 new Foot Locker athletic footwear stores between 1993 and 2000 (Cirulli, 1993).

Other examples of U.S. retailers with expanding and particularly successful operations in Asia and Europe include Toys'R'Us and Blockbuster. Toys'R'Us started to develop its foreign markets intuitively, based on the premise that toys are universally loved rather than as a result of an extensive strategic study. The company's international managers travelled extensively in potential future markets, visited toy fairs, foreign

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Various sources: Bazko, 1993; Cirulli, 1993; Coopers and Lybrand, 1995; Kacker, 1985; Sack, 1993; Salmon and Tordjman, 1989; Strugatch, 1993; Treadgold, 1990; 1991; U.S. Department of Commerce, 1994; U.S. Retailers in Europe - the New Wave, 1994.

shops and factories, walked the streets, observed local consumers and watched TV commercials (Bazko, 1993; Cirulli, 1993). Today, Toys'R'Us derives 24 percent of its total revenues from 21 countries including Australia, Austria, Belgium, Canada, Denmark, France, Greece, Hong Kong, Japan, Singapore, Portugal, Taiwan and United Arab Emirates (Coopers and Lybrand, 1995). Blockbuster Video started its international activities with a few franchising operations a few years ago. By 1992, Blockbuster operated over 1,000 stores in international markets, the majority of which were company owned or joint ventures (Bazko, 1993).

Expanding operations abroad has now become an increasingly viable option for American retailers, as evidenced by the increasing number of U.S. retailers with notable successes in foreign countries. The trend toward further internationalization of U.S. retailers is expected to continue into the 1990s and beyond for several reasons. First, the United States has witnessed an extremely rapid expansion of new stores in the past 15 years. Overstored conditions caused a decline in store space productivity and an extremely fierce competition among U.S. retailers faced with declining sales growth potentials. Second, a strong vulnerability of U.S. retailers to the business cycle and general economic conditions may provide additional incentive for retailers to diversify into international markets. For instance, the recession starting in the late 1980's and continuing through the first few years of the 1990's had a particularly damaging effect on the retail sector. Weaker economic conditions as compared to the 1980's forced many of the largest U.S. corporations to respond with downsizing which affected both blue and white-collar workers. Consequently, unemployment increased and the growth in disposable personal income slowed down. Third, changing demographics in the United States such as aging baby-boomers and the relatively slow growth of new household formations further erode demand and may consequently affect the direction of retail

organizations, particularly in some retail sectors (Sack, 1993; U.S. Industrial Outlook, 1994).

United States retailers have learned to respond quickly to new market conditions such as changes in the economy, consumer behavior or retail technology, to ensure their survival. Furthermore, due to the highly competitive environment, U.S. retailers have been very eager to maintain and increase their market shares with innovative strategies such as developing new retail formats and concepts. However, these strategies may no longer remain sufficient, particularly due the recent internationalization of the retail industry around the world. An increasing number of U.S. retailers may decide to develop truly new markets both north and south of the border as well as overseas.

This review of retail internationalization offered some insights into the present state of international retailing and provided some explanations of the basic concepts and external forces driving retail internationalization. In addition, this review has attempted to show some evidence of the international expansion of U.S. retailers, which appears to be evolving as an alternative opportunity for retail companies to achieve further growth. Against this background, future research activity on internationalization processes and further exploitation of the extant business internationalization literature will become increasingly important for both retail practitioners and academicians.

**CHAPTER 3**  
**LITERATURE REVIEW:**  
**THEORIES OF THE INTERNATIONALIZATION OF THE FIRM**

The purpose of this chapter is to offer a review of various theoretical contributions within the broader scope of the international business literature. Also, a foundation for the conceptual model guiding this research as discussed in the subsequent chapter is provided in this chapter.

Increasing internationalization of firms and markets in recent decades has triggered a considerable interest in the area of international involvement of firms among practitioners and researchers. This is reflected in the efforts of scholars to address international business issues and in writings in the trade literature. Although a considerable amount of research has accumulated on this subject to date, the contribution of this research describing, understanding and explaining international business involvement leaves much to be desired. Also, international marketing and retailing literatures have lagged behind in their development as compared to other branches in marketing and retailing (Alexander, 1995a; Cavusgil and Nevin, 1981; Li and Cavusgil, 1991; Williams, 1992). Furthermore, it has been pointed out that international marketing and retailing in particular is devoid of comprehensive and consistent frameworks to guide research on international involvement (Alexander, 1995a; Douglas and Craig, 1992; Thomas and Araujo, 1985).

While international business literature offers only limited guidance for understanding and explaining the international involvement of firms, theoretical and empirical interest in the determinants of international involvement can be traced in almost every subdiscipline of international business and economics. The existing academic

literature offers an array of theoretical explanations of international involvement with various degrees of conceptual and empirical rigor. The theoretical basis adopted for the purpose of this research is grounded in the internationalization process perspective which attempts to explain international involvement by focusing primarily on internal characteristics of organizations. In this review, major contributions and streams of research adopting this perspective will be assessed and evaluated, and their relevance for the investigation of international retail involvement will be substantiated. In the latter section of this review, additional theoretical perspectives will be highlighted in order to further justify the selection of theoretical grounds on which the conceptual framework (presented in the following chapter) is based.

### **Internationalization Process Perspective of International Involvement**

Internationalization studies explore determinants of international involvement and the nature of such involvement. Specifically, they investigate the behavioral and attitudinal changes a firm experiences as it internationalizes its activities and attempt to relate these internal changes to the firm's major strategic decisions. Despite the apparent academic interest in this area and the fact that the concept of international involvement is fundamental to these investigations, existing conceptualizations of international involvement are vague and inconsistent. There appears to be no single agreed upon definition of this concept in the literature. Given the importance of this concept for further elaborations in this section, and the focus of this research, some conceptualizations of international involvement will be explored first.

Researchers tend to define international involvement as generally meaning the outward movement of an individual firm's or larger grouping's operations (Turnbull,

1987; Johanson and Wiedersheim-Paul, 1975), or as the process of increasing involvement in international operations (Bilkey and Tesar, 1977; Welch and Luostarinen, 1988). On the other hand, studies focusing on determinants of international involvement rather than on strategic decisions tend to conceptualize international involvement along some ordinal level measure in terms of a firm's experience in international business and/or use subjective measures of the importance of international involvement for the firm's overall strategy (Cavusgil, 1984; Cavusgil and Naor, 1987).

In empirical research studies, international involvement has been most commonly operationalized as some measure of foreign sales to total sales. Welch and Luostarinen (1988) recognized the inability of a single measure to accurately assess the complexity of the concept, and proposed a framework with various dimensions of a firm's internationalization which encompassed the components of a) the actual foreign market activity (i.e., the nature of products/services, entry mode, geographical and cultural proximity of foreign markets the firm engages in); and b) the components associated with the organizational capacity (e.g., personnel, organizational structure and the firm's resources). The authors did not consider specific scales of measurement, but suggested that, once developed, these would offer a more precise composite measure of international involvement.

### **Attitudinal Approach to International Involvement**

Pioneering work in the area of international involvement of firms was done by Perlmutter's (1969) EPRG typology identifying stages in the evolution of the multinational corporation. This author suggested four stages of firm and manager orientation toward international markets and their operations: ethnocentrism,

polycentrism, regiocentrism and geocentrism (EPRG). The ethnocentric orientation is associated with the idea that the 'ways of a home country' are best and domestic approaches and values are extended to a foreign market irrespective of the idiosyncrasies of the foreign market environment. A polycentric orientation recognizes environmental differences in the host country; consequently, a firm 'localizes' its international operations. In regiocentrism, a firm focuses on regional similarities found in homogeneous markets/segments across countries. Geocentrism describes a firm's worldwide orientation when it transcends both the ethnocentric and polycentric approaches giving no preferences to the host or domestic ways of doing business, but taking what is best from all the countries (Perlmutter, 1969; Perry, 1991; Wind, Douglas and Perlmutter, 1973).

The four attitude/orientation types are based on the goals, philosophies and levels of international involvement and are associated with successive stages in the evolution of international operations. Thus, firms gradually move from their initial ethnocentric orientation toward polycentrism as they gain more experience. Although this framework has been widely adopted in international marketing management, and business texts to refer to international orientation of organizations (e.g., Czinkota, Ronkainen and Moffett, 1994; Dahringer and Muehlbacher, 1991; Daniels and Radenbaugh, 1992), the model apparently has not been empirically tested. An exception represents a work by Wind, Douglas and Perlmutter (1973), where the authors concluded that the EPRG framework can only be related to a specific marketing decision within a firm, but could not be generalized across the firm.

## **The Nordic Model and Export Stages Schemes**

Perlmutter's premise that a firm's international involvement involves different stages has been adopted by a number of authors who proposed schemes for a firm's internationalization and believed that this process is incremental due to uncertainties in international markets and imperfect information (Bilkey and Tesar, 1977; Cavusgil, 1980; 1982; 1984; Czinkota, 1982; Johanson and Vahle, 1977; 1990; Johanson and Wiedersheim-Paul, 1975; Reid, 1981). These models can be divided into two approaches taken towards the internationalization of a firm; the first approach will be referred to as the Nordic model as it was initially tested on the behavior of the Swedish firms (Johanson and Vahle; 1977; 1990; Johanson and Wiedersheim-Paul, 1978), and the second approach will be referred to as the export stages models or schemes (Bilkey and Tesar, 1977; Cavusgil, 1980; 1982; Czinkota, 1982; Reid, 1981). Due to the importance of the Nordic approach for further elaborations of this research, and due to the fact that it has been referred to as the most accepted model in the field (Rosson and Reid, 1987), the Nordic model will be assessed first, followed by the stages schemes.

Johanson and Vahle (1977; 1990) developed a dynamic model of the internationalization process (Figure 1), the basic premise of which is that general and experiential market knowledge and resource commitment of firms (state aspects) affect commitment decisions and current business activities (the change aspects). The latter, in turn, increase the market knowledge and stimulate further resource commitment to foreign markets in the subsequent cycle. This model implies that firms increase their international involvement in small steps due to uncertainties, and react to perceived opportunities and problems within those foreign markets they currently operate in. The authors propose that firms will successively enter new markets within a greater psychic

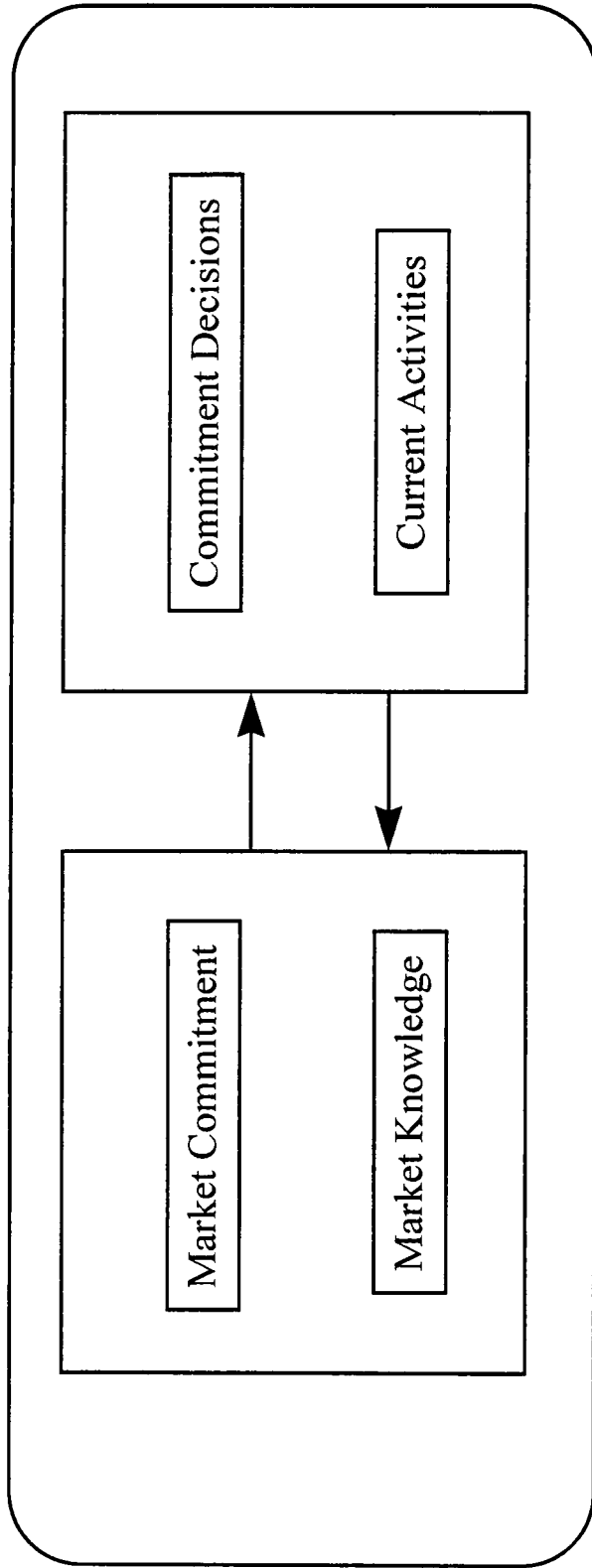


Figure 1. The Nordic Model of the Internationalization Process of the Firm

distance. The psychic distance construct has been defined as the "factors which prevent the flow of information from and to the market" due to differences in culture, languages, education, business practices, etc. (Johanson and Vahle, 1977, p. 24). As companies gradually increase their level of commitment in foreign markets and gain more experience, the nature of their international involvement will change. For example, the foreign market entry mode will change from indirect exporting to the establishment of sales subsidiaries, and finally to overseas production.

The aim of the Nordic model is to explain the pattern of international involvement and the mode of establishing operations in markets other than a home-country market. The authors refer to a firm's Internationalization Process (IP) as following an establishment chain. It is assumed that the model can be applied across industries and countries, but researchers acknowledge three exceptions: a) firms with large resource and experience capacities will be able to take larger steps; b) under stable market conditions, market knowledge can be gained in other ways than 'learning by doing'; and c) as the firm gains experience in certain markets, these can be generalized to other markets (Johanson and Vahle, 1990).

In contrast to the dynamic Nordic model, the export stages models view the internationalization process as a step-by-step process, whereby the higher level stage represents more commitment and a higher level of international involvement than the lower level stage. Underlying most of these models is the notion that the quality and dynamism of management, their expectation, a firm's resources and differential advantage are the key to a firm's internationalization. In contrast to Perlmutter's (1969) framework, where attitudes are used as a criterion, the authors of the stages export models refer to characteristics of management, firms and to strategic decisions to delineate the stages. The main differences among the various 'stages models' pertain to the number of stages

or phases, the specific cognitive criteria employed for the description of stages, and the mechanisms that initiate the process. For instance, Czinkota and Tesar (1982) identified six stages with the initial one consisting of the 'completely uninterested firm', and the last one of the 'large experienced exporter'. Cavusgil's (1980) five stages range from the 'pre-involvement' to the 'committed involvement' stage. Reid (1981) introduces the following five stages: export awareness, export intention, export trial, export evaluation and export acceptance. Certain models assume the firm is not interested in international involvement in the early stages, whereas others describe firms in the initial stage as being more active.

The stages models or schemes use multiple criteria for evaluating the phases. Primarily, these are related to the following aspects: managerial willingness to get involved in international marketing, information gathering activity, beliefs/attitudes toward the foreign markets, knowledge and experience, decision making mode (formal or informal) and skills (from passive to pro-active), the firm's past performance and its goals. The importance of individual factors generally varies with the stage or intensity of the firm's international involvement.

Another common denominator of the stage models is that they have been almost exclusively derived from empirical studies using U.S. manufacturing firms across various industries. Unlike the Nordic model, these are concerned with exporting as the only mode of operation, although indications (similar to the Nordic model) are given as to how the firm will incrementally increase its commitment to foreign markets. There has been no agreement as to which models are best suited to explain or possibly predict a firm's successive international involvement, although researchers appear to recognize that not every firm will always follow their proposed schemes, as there are contextual differences internal and external to the firm. The problem with the empirical research utilizing stage models is that authors do not specify the precise elements of their dependent variable and

include 'unobservable' concepts (Andersen, 1993; Juul and Walters, 1987). Furthermore, the eclectic nature of these models has been a subject of criticism (Andersen, 1993; Turnbull, 1987).

A common theme in the Nordic and the export stage models is the focus on the learning sequence; the former model can be viewed as a process of organizational learning and the latter models as an adoption of innovation type behavior (Bilkey, 1978; Johanson and Vahle, 1990; Reid, 1981). Both approaches to a firm's internationalization have received considerable recognition in the academic community. Specifically, the Nordic model has been continuously adopted for the purpose of empirical research conducted in various countries in Western Europe and the United States in manufacturing and/or service industries (e.g., Benito and Gripsrud, 1993; Denis and Depelteau, 1985; Eramilli, 1991; Juul and Walters, 1987; Millington and Bayliss, 1990; Rosson and Reid, 1987; Samiie and Walters, 1992; Sullivan and Bauerschmidt, 1990; Welch and Luostarinen, 1988). However, little empirical consensus has been reached as to how the international involvement of firms evolves, particularly in regards to the role of factors internal to the firm as possible determinants of international involvement, its relationship to major strategic decisions and the incremental nature of the process.

### **Relevance of the Theories for Investigation of International Retail Involvement**

The above review of the three dominant perspectives ( i.e., the attitudinal approach, the Nordic model and the stages schemes) have contributed to our understanding of the international involvement of firms. Common to all three perspectives or research streams is that they adopt a relatively closed system approach in explaining international involvement by focusing primarily on internal organizational and

managerial characteristics. However, the conceptual and measurement problems with these characteristics as well as methodological problems in all three research streams limit the contributions of empirical findings in supporting suggested relationships between international involvement and various internal firm characteristics.

The common underlying factor in all three perspectives is that international activities involve high risk, international involvement is a sequential process and consequently, international decisions are made incrementally. Generally, the key determinants of international involvement are associated with the firm's differential advantages, international experience, resources and managerial perceptions, goals and expectations.

These theoretical grounds seemingly have not been examined in academic studies investigating international involvement of *retail firms*. However, individual dimensions inherent in theoretical models discussed have been investigated in international retail research, particularly in studies focusing on motivational aspects of internationalization of retail activities (Alexander, 1990; Salmon and Tordjman; Williams, 1991; 1992a; 1992b). An attempt to investigate the possible influence of internal or organizational culture in international retail involvement has been made relative to five British and French retail companies, but methodological concerns prevented the authors from drawing solid conclusions (McGoldrick and Flyer, 1993). Similar concerns are inherent in most of the current empirical research on the internationalization of retail organizations as many of the existing studies rely on descriptive reports and/or case studies of currently more or less successful international retail players (Sparks, 1995; Martenson, 1981). While qualitative studies on retail internationalization can provide important insight into this phenomenon, there is a danger, as Akehurst and Alexander (1995a) pointed

out, "there is a danger that individual studies will not attempt to place the company under consideration in a wider theoretical framework" (p.204).

On the other hand, a few more recent studies provide quantitative evidence of related to retail internationalization. Morganosky (1993a) addressed the issue of internal organizational factors in relation to the international direct marketing involvement of U.S. retailers, but focused on organizations' strategic management practices and company characteristics such as their size and merchandise focus. Chen and Sternquist's (1995) study examined differences between Japanese retailers with and without international operations, but focused primarily on a retailer's financial performance considerations.

Other authors have taken an approach similar to the export stages schemes in that they categorized existing international retailers according to how these organizations internationalize over time. For instance, Treadgold (1990) identified three typical stages in the retail internationalization process: reluctance, caution and ambition. In this typology, a retailer's geographical presence indicated the intensity of its international involvement. In an earlier study, Treadgold (1988) examined geographical expansion and strategies employed by the world's major cross-national retailers and categorized those into four groups according to their geographical presence and according to their entry and operating strategies: the cautious internationalists, the emboldened internationalists, the aggressive internationalists and the world powers. Salmon and Tordjman (1989) discussed international retail expansion in terms of whether firms use global versus multinational strategies.

Conversely, external environmental factors affecting international retail involvement have been documented in previous research, particularly in terms of factors facilitating or impeding the retailer's international expansion (Alexander, 1990; Salmon and Tordjman, 1989; Treadgold, 1990; Kacker, 1985; Morganosky, 1993a; Williams,

1992). Idiosyncrasies of the international market environment, particularly those due to different socio-cultural, legal, political and economic systems, are the key differences between domestic and international markets and hence of prime importance to international retail involvement.

The IP perspective of international involvement described above is believed to be currently the most appropriate theoretical basis for this study investigating retail chains, as the number of retailers and the scope of international involvement of retail firms are still relatively small. The critics of the internationalization process perspective are quick to claim that models fail in situations where both the firm and the market are highly internationalized (Andersen, 1993; Buckley and Ghauri, 1993), however this is not the case with the retail industry. As noted earlier in this chapter, retail industries have been, in comparison to manufacturing industries, slow to respond to international challenges, primarily because of their dependency on the final consumer and the cultural environment in which firms operate. With the exception of a few retail firms which have more or less successfully managed their international activities for several decades, a majority of retailers still choose to primarily serve markets within their national boundaries. Hence, despite the intense trend toward the globalization of developed retail markets of Europe, North America and Asia, firms in the retail industry can be claimed to be 'novices' in international expansion.

#### **Additional Theoretical Perspectives: Theory of Internalization and the Eclectic Paradigm**

Although the conceptual framework guiding this research and presented in the following chapter is based on the theoretical underpinnings discussed earlier, some of the

determinants of international involvement included in the IP theory originate in other theories within the broader context of international business involvement. Perspectives such as the theory of internalization (Buckley and Carson, 1976) and the eclectic paradigm (Dunning, 1979; 1981) can offer further insights into the explanation and understanding of international retail involvement. The internalization perspective is considered to be a part of the core theory of multinational enterprise (Buckley, 1990), the eclectic paradigm has been previously proposed to facilitate the understanding and explanation of international retail involvement (Pellegrini, 1991). These will be briefly described below.

The theory of internalization, which reflects the prevailing perspective in economics is, the transaction cost based theory and is a widely accepted approach to explaining multinational enterprise (Buckley and Carson, 1976; Hennart, 1986; Rugman, 1982). This theory posits that the firm's growth relative to markets is determined by its internalization decisions, whereby the firm internalizes its resources between product groups and between markets. Hence, the growth of firms is driven by the net benefits of internal control relative to the extra costs of using imperfect external markets in intermediate products and services. The idea of internalization refers to the creation of a market within the firm, whereby firm-specific advantages are applied only to activities under the firm's ownership and control (Buckley and Carson, 1976).

Central to various streams of internalization conceptualizations is that international involvement is determined by a firm-specific advantage, the firm's size and host-market attractiveness. Furthermore, it is assumed that international involvement is a rational choice among alternative degrees, whereas various degrees of international involvement are equated with alternative ways of serving international markets. Johanson and Mattson (1993) attempted to explain the internationalization of industrial

firms and compared their network model with the internalization theory and the IP theory. They found that, among industrial firms, the latter model was valid for the firm characterized as early starter stage, while its application was less appropriate for highly internationalized firms.

The eclectic paradigm seeks to explain why multinational corporations have some form of involvement in other countries, where and how they choose to allocate their resources based on ownership-specific advantage, internalization advantage and location specific advantage (Dunning, 1981;1988) . Ownership-specific advantages relate to products, concept or operational advantages a firm has over its competitors in the market. Internalization advantages determine whether the firm will sell or lease its output (products, services or methods) to other firms as opposed to maintaining these for itself. Location advantages relate to a host country characteristics; the country should have particular cost advantages or market opportunities not available in the home market.

The eclectic paradigm has been previously applied to examination of retail internationalization on a conceptual level (Dawson, 1994; Pellegrini, 1991) and in the empirical study of internationalization of Japanese retailers (Chen and Sternquist, 1995). Pellegrini (1991; 1994) attempted to explain retailers' motives for foreign direct investment by applying the eclectic framework proposed by Dunning to the specifics of the European retail industry. Pellegrini's (1991) study identified several ownership factors (e.g., organizational innovation, uniqueness of products and economies of scale), which seek to capture the main competitive advantages of retailers of one country relative to those in another country while servicing customers in a foreign market. The location specific advantages hypothesized by the eclectic paradigm are those that reflect the attractions offered by particular countries as possible sites for international retail activity. Pellegrini identified cultural proximity, market size and competitors' moves as indicators

of the location factor. The internalization advantages addressing the issue of the entry mode of international market involvement, applied to the retail industry, were appropriability of innovation, and learning by doing or learning to learn. Although Pellegrini's approach to explaining international involvement appears conceptually appealing, his proposed concepts and relationships have yet to be empirically tested.

In addition to evaluation of the firm characteristics, the primary emphasis in both internalization and eclectic paradigm on the objective assessment of host-market attractiveness and host market environmental factors, reflecting a rather deterministic view of the environment. The issue of whether objective or perceptual measures of constructs associated with environmental factors are better predictors of international involvement has been raised in the international business literature. As Pennings (1973) pointed out, it is unlikely that they measure the same constructs. These different opinions of researchers stem not only from differences in methodological approaches employed in empirical research, but also from philosophical agreements as to whether objective or subjective evaluation is more relevant when studying organizational behavior. The multiplicity of international market environments and unavailability of consistent and reliable data on some countries, coupled with the complexity of the decision making regarding international involvement are believed to prevent systematic and impartial assessments of international markets. Most empirical studies in an international business context seem to employ subjective assessments based on managerial perceptions.

A limitation of the internalization and eclectic paradigm perspectives with respect to the objectives of this dissertation research pertains to the fact that they do not focus on potential influences of managements' goals and expectations (i.e., internal firm characteristics) as determinants of international involvement. Considering the uncertainty, risk and complexity associated with international operations, particularly for

firms in industries in the early stages of internationalization, factors internal to the firm would seem influential in determining a firm's international involvement. As Boddewyn (1985) noted, international business involvement literature ought to aggregate firm and country-specific advantages with managerial decision-making.

To this end, this research develops a conceptual model of international retail involvement which builds on the existing conceptual and empirical knowledge and integrates the three conceptualizations of international involvement, i.e., the attitudinal approach, the Nordic model and the export stages models, while some constructs originate from the theory of internalization and the eclectic paradigm. The proposed model, its constructs and their role in international retail involvement are discussed in the next chapter.

## **CHAPTER 4**

### **RESEARCH PROBLEM AND CONCEPTUAL FRAMEWORK**

The purpose of this chapter is to state the research problem, specify the objective of the study and propose a conceptual model of the determinants of international retail involvement by integrating theoretical and empirical literature presented in the previous chapter. Furthermore, hypotheses related to the objective of this study and their justification are presented in the latter section of this chapter.

#### **The Research Problem and Objectives of the Study**

The purpose of this study is to examine present international involvement of major retail chains operating in the United States by investigating firm and industry specific determinants of a retail chain's involvement in retail activities beyond the domestic market.

Based on a conceptual model of international retail involvement, the objective of this study is to examine whether constructs measuring internal firm and industry characteristics are accurate predictors of international involvement of retail firms. Specifically, six constructs proposed in the conceptual model as the antecedents of international retail involvement are: the retail differential advantage, the firm's knowledge, the firm's experience, the perceived attractiveness of international expansion, the domestic market growth opportunities and retail chain's size.

## **A Conceptual Model of International Retail Involvement**

The conceptual model for this study is based on theoretical and empirical contributions described in the previous chapter, which draws on the literature in export marketing and international retailing, and focuses on the early stages of a firm's international involvement. Exporting as a form of international involvement is not, due to the nature of retailing, considered the most viable option for a retail organization. With the exception of the mail-order format and the exporting of a retailer's private label merchandise, retail services cannot be stored and exported (Pellegrini, 1991). Nevertheless, studies of a firm's export involvement can offer important insights as to what determines international retail involvement. According to previously discussed theoretical perspectives, exporting represents an indication of an early stage of international involvement for firms in manufacturing industries. As Williams (1992b) noted, findings from export studies are relevant to retailers because retailers tend to adopt a selling rather than a marketing orientation towards their international operations even when they utilize a marketing orientation in domestic markets.

The model developed for this study adopts a micro-orientation focusing on the international involvement of firms in a single industry, i.e., the retail industry. The overall purpose of the model and the subsequent empirical test of the proposed hypotheses is to provide a greater understanding of the internal firm and industry specific determinants of international retail involvement. In the absence of useful frameworks for understanding and explaining international retail involvement (Akehurst and Alexander, 1995a; 1995b; Dawson, 1995; Whitehead, 1992), the contributions of the proposed model are that it integrates previous theoretical and empirical knowledge in international business, yet, identified components of the model have been adapted to the specifics of the retail

industry and are thus considered to have relevance in explaining the international activity of retail firms.

### **International Retail Involvement**

As discussed in the previous chapter, there are two major types of International Retail Involvement (IRI), depending on the motivation of a retail company to expand its operations beyond the home country: a) resource-seeking (i.e., foreign sourcing and/or importing); and b) market-serving (Hollander, 1970; McGoldrick and Davies, 1995). While the former is becoming, due to competitive pressures, an increasingly important aspect of operations for retailers, market-serving international involvement is emphasized in this research. In market-serving international involvement or IRI, a retail firm's output is intended for consumption in a host country. The output includes products, services, know-how, retail formats and concepts and other aspects of a retail firm's management.

In the international business literature, international involvement is generally used to refer to involvement in various types of market-serving business activities (e.g., marketing, production, finance). The focus of this research, however, is on international involvement of all types of business activities related to retailing. Hence, the scope of international retail involvement addressed in the model in Figure 2 is conceptualized as the market-serving involvement in retail activities at the individual retail store chain level in more than one national environment.

As depicted in Figure 2, IRI is the key dependent variable of interest in this model. Based on conceptualizations in the literature discussed in the earlier chapter, the proposed model postulates that five constructs and a dimensional characteristic of a firm

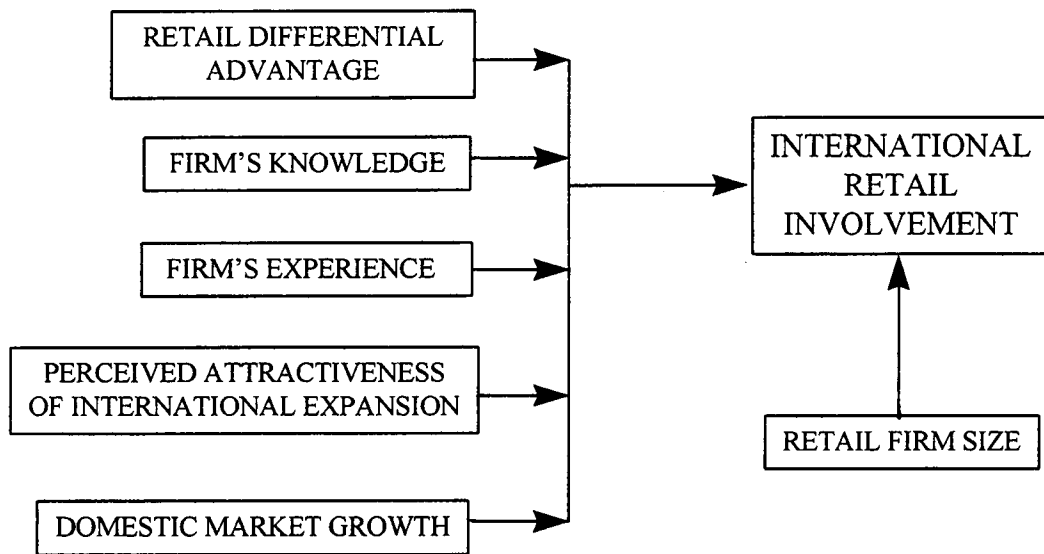


Figure 2: Conceptual Model of International Retail Involvement

are major antecedents of the IRI of a retail firm. Given the objectives of this research, the early stage of retail internationalization of retail store chains in the United States, which implies a limited number of companies currently involved in retailing across national borders, along with the potentially proprietary nature of information regarding the retailers' strategic moves, IRI is defined as a dichotomous variable. A retail firm is considered to have some IRI if it currently has at least one retail store operation outside the domestic market, regardless of the entry mode or legal form of its involvement, i.e., whether a retail firm uses licensing, contractual agreements, franchising or foreign direct investment methods of entering international markets.

### **Determinants of International Retail Involvement**

As stated above, the model presented in Figure 2 suggests that six constructs related to the retail firm and management characteristics are key determinants of the international involvement of retail organizations. The constructs proposed in this model are: the retail differential advantage, the firm's knowledge, the firm's experience, the perceived attractiveness of international expansion, the domestic market growth opportunities and the firm's size.

#### ***The Firm's Differential Advantage***

Differential advantages related to the uniqueness of a firm's product/services to be launched to international markets have been considered to be 'attention evokers' for the firm (Wiedersheim-Paul, Olson and Welch, 1978), and may provide an incentive to initiate and eventually continue exploiting foreign markets (Douglas and Craig, 1992). Export studies generally conceptualize differential advantage as stemming from the

nature of a firm's product, markets, technological orientation and/or its resources.

Examples include perceived company strengths regarding new product development capability, quality, technological intensiveness, and managerial competence in marketing, finance and other areas (Bilkey, 1978; Cavusgil, 1982; 1984; Cavusgil and Nevin, 1981).

Although the concept of differential advantage has been labeled differently in various studies (e.g., distinctive competence, invisible assets and core capabilities), it has a long standing relevance in organizational and international involvement literature. For example, competitive advantage defined as the advantage of one firm relative to other firms has been used in the competitive strategy approach (Porter, 1985) and eclectic paradigm of internationalization (Dunning, 1988). Furthermore, this concept is also inherent in the internalization theory of international involvement mentioned in the review of the literature and various theoretical perspectives. The primary rationale underlying the internalization theory for specifying firm specific advantage as a key determinant of international involvement is that if a firm's specific knowledge/skills are better than those of its competitors in an international market, then a firm will internalize the activity in which it has relative advantage. Knowledge and skills, according to internalization theory stem from a firm's possession of specialized or idiosyncratic knowledge relative to other providers of similar services. Dunning (1981; 1988) specified three types of firm advantages in explaining whether a firm develops direct investment operations in foreign markets (i.e., establishes its own retail stores rather than undertakes other forms such as concessions or joint ventures): ownership-specific advantages, location advantages and internalization advantages. Ownership-specific advantages translate to what is termed as retail specific advantage in the model of IRI as it relates to products, concept or operational advantages a firm has over its competitors in the market.

The role of a firm's differential or competitive advantage has not been explicitly incorporated in the Nordic model (Johanson and Vahle, 1977;1990), although a firm's general and experiential knowledge could be associated with the firm's differential advantage. However, considering that managers in the pre-international involvement phase might lack knowledge, experience, and substantial resource commitment from their firms, an important lever to internationalization will be the existence of retail specific differential advantages (Douglas and Craig, 1992). Hence, the model presented here postulates that a retailer's differential advantage is an important determinant of international retail involvement.

The retail firm's differential advantage proposed in this model is conceptualized as specialized assets and skills a retail firm possesses in performing retailing activities relative to or in relation to its domestic competitors. Hence, the retail competitive advantages are confined to retail specific operational advantages related to the distribution advantages, the retailer's merchandise mix, the quality and design of products, customer service, the retail technology, the retail concept and the retailer's relationships with its suppliers. This construct was defined similarly in an investigation of factors affecting retail internationalization of UK retail companies as these were considered the essence of the retailer's competitive positioning (Williams, 1991; 1992a).

### ***The Firm's Knowledge***

Managerial knowledge, composed of general and experiential knowledge, plays a central role in the Nordic model of a firm's internationalization process. Constructs related to managerial knowledge of international business affairs represent an important factor discriminating exporting and nonexporting firms in the export stage models described in the previous chapter. Johanson and Vahle (1977; 1990) particularly

emphasized the role of general and experiential knowledge as it facilitates mobilizing the capital and human resources needed for international expansion.

The concept of knowledge and its development has been an important issue in the literature on globalizing firms and in strategic management and organizational studies (Roos, von Krogh and Yip, 1995; Bartlet and Goshal, 1989; Kogut and Zandler, 1993). The construct has been associated with a firm's inquiry of information and know how, with a firm's learning ability, its competitive advantage, and has been believed to be the property of organizations, their departments, groups and individuals.

Although studies in export involvement of firms emphasize the role of a firm's knowledge of international business, the construct labels and associated measurements differ across studies. For instance, Cavusgil (1982) examined firm characteristics which facilitate or hinder a firm's progression over the internationalization path and proposed a four stage model of export involvement. The author identified the construct 'level of commitment to export marketing' which was measured with a firm's information-seeking behavior. He found this variable to be the most significant difference between exporting and non-exporting firms.

Other export studies used firms' market research activities, their information gathering activities and resources dedicated to the assessment of foreign market potentials, as indicators of a firm's resource commitment ( Bilkey and Tesar, 1977; Bilkey, 1978; Cavusgil, 1980; Cavusgil and Nevin, 1981a) rather than an indication of knowledge as proposed by the Nordic model. Using discriminant analysis in their study, Cavusgil and Naor (1987) found that a firm's information search via personal contacts (used as an indication of a firm's resource commitment) was the most significant factor

discriminating between exporting and non-exporting firms, whereas management expertise in marketing and planning<sup>3</sup> were not found to be significant discriminators.

In view of the inconsistencies in conceptualization and labeling of the constructs related to the firm's knowledge in previous studies, this model proposes that *the knowledge of a retail firm* relates to its information seeking behavior on international retailing opportunities and knowledge of competitors' international moves.

### ***The Firm's Experience***

The role of international experience is one of the key determinants of firms' international involvement and is underscored in Johanson and Vahle's (1977) thesis. International experience is accumulated through learning by doing, whereby knowledge of international marketing is enriched by previous experience. Consequently, accumulation of experience in foreign markets is considered to reduce the perceived risk which in turn increases the willingness for international involvement. On the other hand, the lack of international experience reduces this willingness either by making foreign market involvement a risky endeavor or by limiting the ability to recognize the opportunities available in foreign markets.

Johanson and Vahle (1977) stated: "In international activities, uncertainty is generally greater and the difficulties of getting information are also greater. It is the lack of market knowledge which is the greatest obstacle to the first foreign ventures, and it is the access to such knowledge which makes it possible for the internationally experienced firm to extend these activities to new markets." (p.13). More recent studies testing the

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Management expertise in marketing and planning could also be considered a measurement of knowledge, but Cavusgil and Naor (1987) used these concepts as indicators of a firm differential advantage.

whole or parts of the Nordic model argue that Johanson and Vahle overemphasize the importance of experiential knowledge or 'learning by doing', particularly in view of recent advances in communication technology and the fact that experience could be supplemented or substituted by careful strategic planning (Benito and Gripsrud, 1991; Millington and Bayliss, 1990).

The construct, firm's experience, in the model of IRI relates to a firm's experience in global sourcing, and to the ability of management to handle international expansion. The foreign sourcing aspect has apparently not been used as an indicator of experience in international business at a firm level in previous studies. However, this research hypothesizes that the experience gained by a retail firm with their resource-seeking involvement in international markets could be an important discriminant between retailers involved and not involved in international retail activities. Competitive pressures in consumer markets in developed countries and particularly in the United States have been forcing many retailers to increasingly engage in foreign sourcing activities to ensure competitive prices, greater product diversity, etc. As Liu and McGoldrick (1995) pointed out, there is an important difference between international sourcing and traditional importing of goods as the former indicates a more proactive stance of retail firms in the acquisition of sources and deeper involvement in strategic decision making.

Theoretical support for the inclusion of a foreign sourcing variable in the construct of experience comes from the Nordic model. Johanson and Vahle (1990) proposed that there are a few exceptions to the role of experiential knowledge. They suggested that a firm can gain experiential knowledge of international markets from other markets with similar conditions, and when it attains market knowledge by means other than direct experience.

Other variables considered in previous studies and associated with the level of what is termed the firm's experience in the model of IRI in this research, were personal characteristics and capabilities of the decision makers such as their educational background, international business experience, and language skills (Aaby and Slater, 1989; Dichtl, Koeglmayr and Mueller, 1990; Reid, 1981; Weinrauch and Rao, 1974; Cavusgil and Nevin 1981; Koh, 1991). For instance, Welch and Luostarinen (1988) proposed that personnel characteristics such as experience, language training and education are potential catalysts for the initiation of a firm's international involvement. Moreover, the export stage schemes and international marketing involvement studies address decision makers' characteristics such as their foreign experience, living abroad, their exposure to international affairs and interest in international affairs as it leverages a firm's involvement in international markets (Cavusgil, 1980; Dichtl et al., 1990; Lim et al., 1993; Reid, 1981; Madsen, 1989; Wiedersheim-Paul, et al., 1978).

Considering the complex nature of the decision-making process regarding international expansion of large retail organizations as compared to medium or small size exporters used in the literature, this model does not consider personal characteristics of individual managers, as it is assumed that teams rather than individuals are involved in such strategic decision making. Hence, international business training of the decision-making team could be a potential indication of a firm's knowledge. Koh (1991) investigated the relationships between organizational characteristics, marketing strategy and export performance. He confirmed previous findings that formal international business education of decision makers is one of the important ingredients of export success. Formal training raises management's awareness about foreign market needs and improves the skills and knowledge necessary in formulating international strategy.

Hence, the model in Figure 2 proposes that *the firm's experience* is related to the firm's actual experience in international markets as indicated by the extent of its foreign sourcing experience, and to the ability of management to handle international expansion..

### ***Perceived Attractiveness of International Expansion***

As discussed in the previous chapter, the dynamic Nordic model focuses on two main factors in explaining the internationalization process: the state aspects or resource commitment to foreign markets ( i.e., market commitment and knowledge about foreign market and operations) and the change aspects (decisions to commit resources and the performance of current business activities). According to Johanson and Vahle (1977), the assumptions of the model are that a firm strives to increase its long term growth and profits, and that the resources committed and the degree of commitment affect the firm's perceived opportunities and risk. Although the authors never actually specified the construct of the perceptions of the attractiveness of international involvement, the international marketing and export literature clearly demonstrates its fundamental role in determining the nature and extent of international involvement.

The importance of top management attitudes in shaping international involvement was proposed by Perlmutter (1969) and Wind and others (1973) who identified four attitudinal orientations describing firms involved in international activities: ethnocentric, polycentric, regiocentric and geocentric orientation. Even though little has been done on the actual operationalization of these orientations, they are associated with successive stages in the evolution of international operations. Since Perlmutter's framework deals with organizations which had already initiated international expansion, it appears that his categories cannot be relevant to this research. However, Bilkey (1978) noted that one of the important internal change-agents in the initiation of international activities is the

firm's management, who diffuse an impression of the attractiveness of international involvement as an abstract ideal, independently of the extent of contribution such involvement might make to the firm. Hence, it can be argued that the management attitudinal orientation serves as an antecedent to a firm's international involvement.

Support for this view has been provided by various researchers who have shown that a favorable orientation towards international operations entices the firm to mobilize its financial and managerial resources (Cavusgil, 1984; Cavusgil and Nevin, 1981; 1981a; Dichtl et al., 1990; Reid, 1981; Weinrauch and Rao, 1974). For instance, Cavusgil (1984) stated in his empirical study: "Managers tend to form their expectations about the profitability, riskiness, and costliness of exporting based upon their own and/or other firms' experiences, as well as their perceptions of the potential impact of the constantly changing environment of international markets..." (p.8).

Against this conceptual and empirical background, the perceived attractiveness of international expansion in the model proposed is defined as the system of attitudes and perceptions representing decision makers' subjective evaluation of international retailing activities. Some indicators of this concept include perceptions regarding the risk, cost, complexity and potential returns associated with the international expansion.

### ***Domestic Market Growth Opportunities***

One of the important determinants of whether a firm takes the initiative in getting involved in international markets was shown to be adverse home market conditions, causing management to explore new markets as a means of future growth. While the Nordic model (Johanson and Vahle, 1977;1990) focuses on the process rather than the initiation of international involvement, their model does not explicitly incorporate the above concept. In Johanson and Vahle's model, the 'change aspects' include the state of a

firm's performance of *current activities* (see Figure 1), although the authors never refer to them as indicating the domestic market situation.

On the other hand, the existing literature on international marketing and export involvement in particular, include the concept of domestic market conditions as an important factor in initiating and continuing international marketing activities. Some of the aspects considered in previous studies include a firm's opportunities for domestic market growth, the level of saturation in the domestic market, the degree of diversification and whether a firm has a dominant position in the domestic market (Alexander, 1995a; Bilkey, 1978; Cavusgil and Naor, 1987; Denis and Depelteau, 1985; Lim et al., 1993). Also, it has been suggested that if a firm's management perceives that there are substantial opportunities in the domestic market or have domestic supply problems, their firms are less likely to export than those who have capacity and can grow within the existing infrastructure (Aaby and Slater, 1988; Cooper and Kleinschmidt, 1985; Sullivan and Bauerschmidt, 1987).

Alexander (1995 a) discussed the impact of domestic market saturation in retail internationalization and concluded, based on historical observation of retailers in the 1960s and 1970s, that retailers who reached national coverage and perceived the threat of domestic market saturation were likely to consider foreign investment. Also, whether a firm has a dominant position domestically appears to determine its international involvement (Cavusgil and Zou, 1994; Kacker, 1985; Treadgold, 1988).

International retailing literature has characterized adverse domestic market conditions as representing 'push factors' or reactive rather than proactive responses to retail growth and internationalization (Hollander, 1970; Kacker, 1985; McGoldrick and Davies, 1995; Morganosky, 1993; Treadgold, 1989; 1991). Some of these domestic conditions, which seem to be relevant to Western European conditions as well as to

recent trends in the United States, included economic conditions, domestic competition, market saturation, adverse demographics, maturity of formats and domestic trading conditions. In view of the above considerations, the construct, domestic market growth opportunities, in the proposed model relates to a retail firm's growth opportunities in the home market.

### ***Retail Firm Size***

The model in Figure 2 proposes a retail firm size will have a significant effect on international retail involvement. The retailer's size is speculated to have an influencing effect for various reasons. The Nordic model acknowledges that initiation and the pace of the internationalization process may be accelerated when the company has substantial resources which can be invested to gain market knowledge by means other than actual experience in the international markets. On the other hand, international marketing and exporting literature provides inconsistent evidence regarding the influence of a firm's size on the initiation or the extent of its international involvement. The most common argument is that larger companies have a size-related advantage which enables them to more effectively engage in international ventures (Cavusgil and Nevin, 1981a). However, contrary evidence has also been demonstrated. While some export studies found firm size related differences between exporters and non-exporters (Cavusgil and Naor, 1987; Yang et al., 1992), other studies find no relationship between a firm size and its international involvement (Cavusgil, 1982; Diamantopoulos and Inglis, 1988; Fenwick and Amine, 1979; Bilkey and Tesar, 1977).

These marked differences on the impact of size in the conceptual arguments and empirical studies most likely lie in differences in conceptualization and measurement of both concepts, the firm's size and international involvement. Also, researchers have

pointed to a lack of conceptual base for predicting the relationship between these two variables (Calof, 1994; Reid, 1985; Rosson and Reid, 1987).

### **Research Hypotheses**

The main objective of this study is to examine whether the six constructs related to a firm and managerial characteristics are accurate determinants of the international involvement of retail firms. Hypotheses in relation to this objective are stated and substantiated in this section.

#### **Hypothesis 1**

Retail chains with IRI have significantly stronger differential advantages for at least some dimensions of the construct Retail Differential Advantage (RDA) than retail chains without IRI.

International marketing and retailing literature clearly demonstrates the crucial role of the existence of a differential advantage in facilitating firms' international ventures. Bilkey (1978) found in his review of the literature on export behavior of firms that a primary determinant in whether a firm takes the initiative to export was its confidence in the firm's competitive advantage. Lim et al. (1993) found that all six dimensions considered in their definition of competitive advantage were significant in determining the initial stages of international involvement.

In his investigation of Swedish firms, Wiedersheim-Paul et al. (1978) concluded that two groups of internal stimuli factors are crucial in the pre-export behavior of firms: differential firm advantage (i.e., the possession of unique competencies) and excess capacity in the firm's resources. Similarly, Cavusgil et al. (1979) proposed a stimulus-organism-response model of export behavior. Based on an analysis of small and

medium- sized Wisconsin manufacturing firms, the authors suggested that an export response should be preceded by an appropriate stimulus (e.g., a firm's differential advantage). Furthermore, the significance of a firm's differential advantage for the firm's international involvement has also been confirmed in other studies utilizing export stages models (Cavusgil and Nevin, 1981; Thomas and Araujo, 1985).

Retail industry experts and researchers have underscored the role of a retailer's core competence in international involvement (Hollander, 1970; Shern, 1994). Topol and Sherman (1994) concluded in their comparison of direct marketing firms reluctant and not reluctant to market products/services outside the U.S. market that "... direct marketers must first assess internal competencies and then develop and revise their strategic plans as they explore new markets and identify new opportunities" (p. 39). Williams (1991) examined the role of differential advantage among international retailers in the United Kingdom. The principal components analysis of various dimensions of differential advantage extracted the following four factors: retail marketing expertise, large scale retailing, distinct retail concept and strong retail brand. Some of the specific dimensions of these factors included the existence of a distinguishing product, merchandise assortment, a unique retail concept, appealing and innovative retail formula, market image/prestige, close relationships with channel members and competitive pricing. The author concluded that these differential advantages should be used as basic evaluative criteria for both retailers contemplating internationalization and for existing international retailers.

The role of retail firm's distinctive competencies has also been emphasized in previous conceptual essays proposing frameworks to be considered in internationalization of retail organizations (Dawson, 1994; Simpson and Thorpe, 1995; Vida and Fairhurst, 1997, forthcoming).

## **Hypothesis 2**

The greater the retail firm's knowledge of international opportunities and competitors' international moves, the more likely the firm has IRI.

Denis and Depelteau (1985) studied the role of market intelligence among new and experienced exporters and concluded that information gathering activities play a determining role in international expansion. A firm's information search behavior was also found to be a significant discriminator between exporters and non-exporters (Naor and Cavusgil, 1987) and a significant determinant of the international involvement among exporters in three different industries in Ohio (Lim et al., 1993).

Although the importance and the role of knowledge in a firm's international involvement appears to be theoretically supported (Johanson and Vahle, 1977), not all empirical studies defining the construct as in this proposal found significant relationships between a firm's knowledge and its international involvement. Two recent studies did not find support for this notion. Koh (1991) and Madsen (1989) found that the frequency and the extent of international marketing research, and the a priori market research, respectively, were not related to export performance.

Morganosky (1993a) studied internal organization factors (strategic management practices and company characteristics) of U.S. direct marketers and found that involvement in selling and direct marketing overseas was significantly related to firms' strategies in conducting marketing research. This finding was not surprising, however, considering the importance of database management for direct retailers.

## **Hypothesis 3**

H3a: The greater the firm's experience in terms of the management's ability to handle international operations the more likely it is the firm has IRI.

H3b: The greater the firm's experience as defined by its foreign sourcing experience, the more likely the firm has IRI.

The above hypotheses are based on the internationalization process model of international involvement (Johanson and Vahle, 1977; 1990). Additional support comes from export studies and from conceptual and empirical research on international retailing. Madsen (1989) found in his empirical export performance study that a firm's export experience (defined as the firm's and managers' experience with the buying country, the number of years of exporting and the number of countries exported to) was by far the most important explanatory variable of a firm's international performance.

An analysis of international retailers in the United Kingdom revealed that lack of experience and ethnocentric attitudes of management may lead to a reactive rather than proactive stance toward retail internationalization and may lead to underestimating potential obstacles in the process (Williams, 1992). Also, the following critical factors facilitating increasing international involvement of retail companies have been previously identified: the presence of other international retailers, *the accumulation of in-company experience of trading internationally* including learning through sourcing as well as the growing scale of internationalization of supplier companies (McGoldrick and Davies, 1995; Treadgold, 1990). The latter notion (the band wagon effect of other companies internationalizing their activities) is supported in the network approach to internationalization of industrial systems which emphasizes the international interdependence among firms within industries (Johanson and Mattson, 1993).

Lim, Sharkey and Kim (1993), who tested the utility of Anshoff's four growth strategies in an international marketing context and included firms not involved in international activities in their sample, found a strong relationship between their construct of international orientation (defined as management exposure to, interest in foreign affairs

and extent of foreign travel) and international marketing involvement. These authors concluded that firms getting involved in international marketing, but not having internationally experienced staff may be doomed to failure. Dichtl et al. (1990) tested the predictive validity of the construct *foreign orientation* of business managers in firms across five countries; their construct also included management experience with foreign travel and their living in other countries. They concluded it is possible to empirically differentiate between export-experienced and inexperienced decision makers based on this construct.

Among the important factors facilitating international retail involvement in the European market, Treadgold (1990) identified the accumulation of international experience, growing professionalism of management and its increasing mobility. Although no empirical research has apparently been done on the role of decision makers' characteristics in international involvement of U.S. retailers, Hollander (1970) also considered managerial knowledge and management capabilities to be vital.

While the role of management abilities in handling international operations appears to have been well documented in previous empirical research in international business and in conceptual studies on retail internationalization, there is no conclusive evidence that the firm's experience as defined by a retail firm's foreign sourcing experience bears on international involvement of retail firms. However, theoretical foundations and previous empirical evidence from other industries support the researcher's expectations.

#### **Hypothesis 4**

Retail chains with IRI exhibit significantly more favorable perceptions of the attractiveness of international retail expansion than do retail chains without IRI.

Although there have been inconsistencies in the conceptualization and measurement of the construct of management perceptions of the attractiveness of international expansion in the literature, support for the above hypothesis comes from studies on export marketing and international retailing.

Cavusgil and Naor (1987) sought to identify firm characteristics associated with international marketing activities of manufacturing firms, and measured attractiveness of exporting in terms of perceived risk and profits. They found that the risk associated with exporting most significantly differentiates currently active exporters from non-exporters. Also, other empirical research suggests that firms not involved or only marginally involved in international activities tend to be more pessimistic in their evaluations of risk, costs and profits than firms actively involved in international activities (Bilkey, 1978; Cavusgil, 1984; Topol et al., 1994).

However, in his 1992 empirical study, Cavusgil found that neither profit nor risk perceptions discriminated between the stage one firms (not involved in international operations) and stage two firms (marginally involved in international activities). The author suggested that in the early stages of a firm's international involvement, non-economic motives could play a more significant role than profit motivations. The latter notion is also supported by studies investigating factors facilitating and driving internationalization of retailers, which has been a focus of academic research in recent years (Alexander, 1990; 1995a; Hollander, 1970; McGoldrick and Davies, 1995; Williams, 1992). For instance, among the internal firm factors found to facilitate international expansion was the image and prestige associated with the retail firm's international expansion (McGoldrick and Davies, 1995; Williams, 1992). Also, Williams found that factors labeled as proactive as well as growth oriented and internationally appealing/ innovative retail offer provided significant motivation for international

expansion of United Kingdom retail companies. Some of the various dimensions of these two factors included long-run sales growth and profits, attractive current growth prospects of foreign markets, a retail sector conducive to internationalization, and the international appeal of the retail formula.

Topol and Sherman (1994) reported that direct marketing firms who were not reluctant to expand internationally exhibit a significantly greater willingness to take risks, are more innovative and have a greater likelihood of introducing new products. Consequently, firms more willing to take on high-risk projects believed their management is willing to explore new opportunities and valued experimentation in the organization.

#### **Hypothesis 5**

Retail chains firms with IRI have significantly less opportunities for domestic market growth than do retail chains without IRI.

Lim et al. (1993) examined the role of domestic market conditions in terms of domestic profitability and growth, and concluded that particularly domestic profitability is strongly related to international involvement. They speculated that the reasons were that international ventures require large resources, and that domestic profitability indicates a firm is healthy and thus able to compete domestically as well as internationally.

Yang et al. (1994), who tested market expansion ability to identify potential exporters, included domestic market coverage (whether a firm is local, county, district, state, regional or national) and found this variable to be a significant predictor of a firm's international involvement. Similarly, Denis and Depelteau (1985) found slow expansion exporters profiles' to be significantly different from moderate and rapid expansion

exporters, particularly in that the former were strongly concentrating on various parts of the U.S. market.

As Bilkey (1978) noted, motivation for international involvement is distinct from, but often related to, the initiation of international involvement (p. 34). Consequently, European studies on motivations and obstacles to international retailing would be relevant to support the above hypothesis. In exploratory research on the interrelationships among retail firm motives, obstacles, organizational characteristics and differential firm advantages in the internationalization of UK retailers, Williams (1992) used a principal components analysis to identify a factor labeled 'limited domestic growth opportunities' as facilitating internationalization of retailers. Various dimensions of this factor included items such as increased competition in domestic market, saturated and mature UK retail sector and dominant firm in the UK sector. Although this factor was not found significant in the path analysis exploring various interrelationships, the importance of this motive should not be ignored.

Having studied the opportunities and problems associated with direct marketing domestically and overseas, Morganosky (1993) found that domestic competition was viewed as the most pressing problem facing retailers in U.S. direct marketing, whereas competition was not perceived as a major problem in overseas markets. Consequently, she suggested this finding might indicate a strategic advantage in relationship to overseas direct marketing.

### **Hypothesis 6**

The larger the retail chain's size in terms of its annual sales volume and the number of full time employees, the more likely it has IRI.

As discussed earlier in this chapter, marked differences regarding the impact of a firm size on its international involvement has been found in academic literature of international business involvement. Findings in the existing retail literature are equally inconsistent. Morganosky (1993a) found that neither sales volume nor the number of employees were significantly related to involvement in international direct marketing, whereas Williams (1992) observed in his study of international retailers in the United Kingdom that among other obstacles to internationalization, 'small firm with limited resources' was one of the extracted factors resulting from his principal component analysis. Williams (1992) stated: " It is felt that size will influence RI (retail internationalization), but specific causes of its influence are unclear" (p.10). Similarly, the investigation of difference between Japanese retailers who sought international expansion and those who do not and focusing on retailer' financial performance, Chen and Sternquist (1995) found that international retailers tended to have higher sales volumes, more employees and longer histories of establishment

Also, a retail firm size could be an indicator of a retail chain's domestic coverage. It has been argued that firms need to go through an internationalization process in the domestic market itself before moving into international markets (Wiedersheim-Paul et al., 1978). Cavusgil and Naor (1987) and Williams (1992) also noted that domestic expansion provides the retailer with operating knowledge and experience which can be leveraged into culturally or otherwise different market conditions. The role of a firm's domestic market expansion strategy was confirmed in Cavusgil's (1982) empirical study, which found significant differences between firms in different stages of international involvement in terms of whether they had local, regional or national market orientation and whether they had a national network of suppliers.

## Chapter Summary

The conceptual model as well as the hypotheses specified provide a consistent way to examine critical determinants of international retail involvement suggested by conceptual and empirical studies in the international marketing and retailing literature. The conceptual model of IRI and the subsequent empirical test of the hypothesized relationships represent the first step toward the culmination of findings as well as the interpretation, integration and extension of existing knowledge of retail internationalization. Based on the proposed model and conceptual definitions of key constructs of interest provided in this chapter, the next chapter proposes the research design and procedures to be employed in collecting the data necessary for testing the implications of the model.

## **CHAPTER 5**

### **RESEARCH DESIGN AND DATA COLLECTION**

This chapter discusses the research design and procedures utilized in collecting the data necessary to test the hypothesized relationships proposed in the previous chapter. This was a cross-sectional, quantitative study. While the primary data was collected via a mail-survey from top executives of retail firms, the unit of analysis in this study was an individual retail store chain or a strategic business unit of a large retail conglomerate rather than an individual manager. This chapter is divided into the following sections: a) groundwork and overview of procedures; b) selection of firms and informants; c) development of measures; d) pretest of the instrument; e) data collection; and f) response rates.

#### **Groundwork and Overview of Procedures**

Overall, the sample selection, the scale development, and the mail survey methodology (see Figure 3) followed the procedures recommended by Dillman (1979), Mangione (1995), Churchill (1979) and Gerbing and Anderson (1988). As indicated in Figure 3 describing the flow of methodology, a thorough review of the existing trade literature and academic studies provided a background for in-depth interviews with two executives, one representing a retail organization with current international involvement and the other one representing a retailer with no current intention to expand its operations internationally. The review of published documents facilitated the selection of firms and informants and provided the basis for the development of a secondary data base of participating firms.

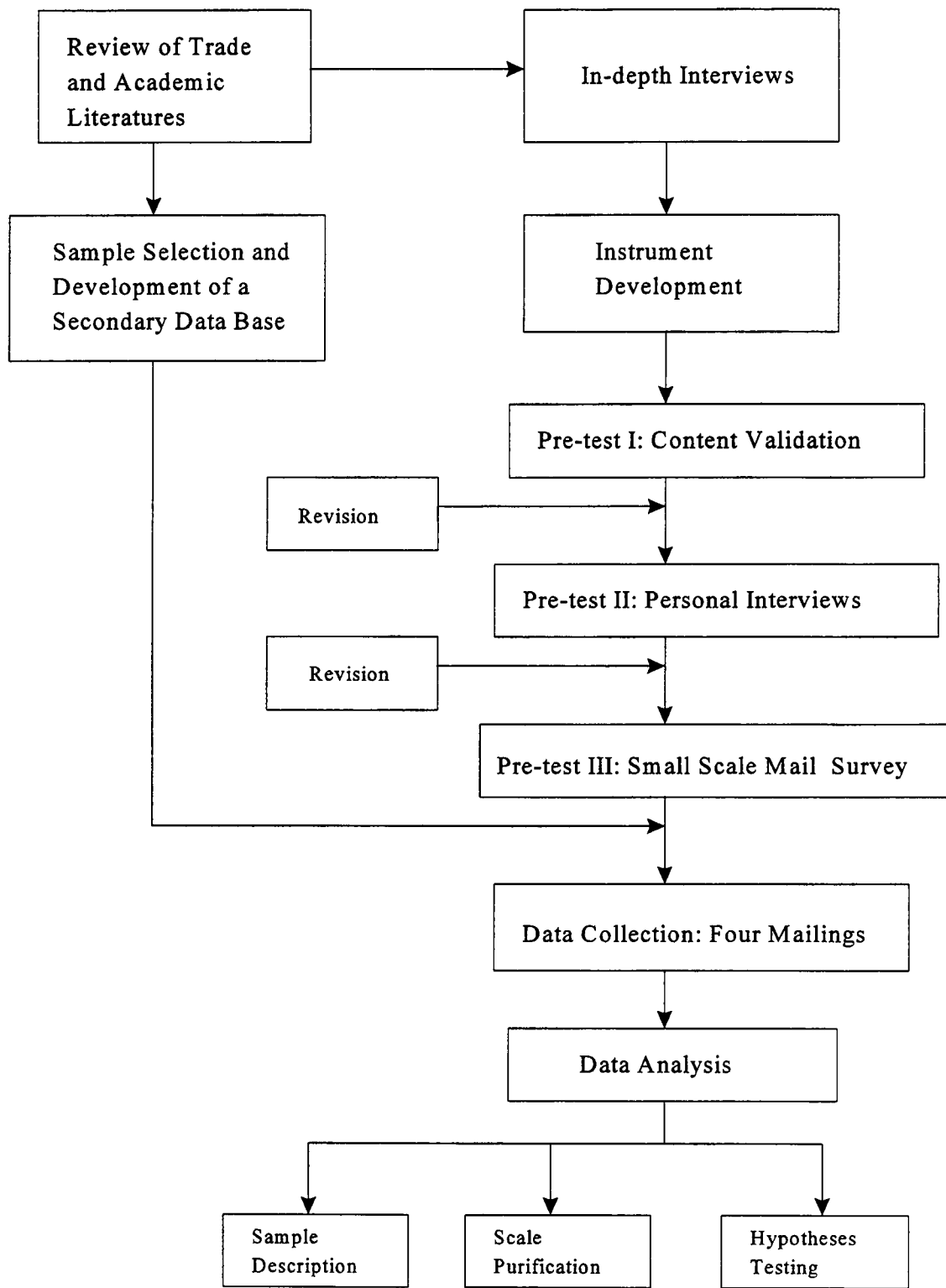


Figure 3: Flowchart of Methodology for the Study

The purpose of the two in-depth interviews conducted with retail executives in May and June 1996 was to discover relevant determinants of IRI not yet identified from the literature and to assess the measurements of the constructs from the management perspective. The interviews, one telephone and one personal interview, lasted 60 to 90 minutes and followed the principles of data gathering and analysis as recommended by Miles and Huberman (1984) and McClintock, Brannon and Maynard-Moody (1979). As suggested by these authors, when conducting in-depth interviews, the researcher has *a priori* assumptions and follows pre-set interview guidelines structured so as to affirm or dispute the *a priori* assumptions, which in this study were derived from the relevant literature. The in-depth interviews allowed the researcher to further discover relevant antecedents of IRI, gain a deeper understanding of international business involvement in the context of the retail environment from a managerial viewpoint, and delve into complexities of the meaning of the constructs previously identified in the model. After the tape-recorded interviews were transcribed, the analysis of interviews reaffirmed the underlying determinants of IRI in the model, and, even more importantly, provided a basis for developing the instrument. The chart in Figure 3 shows that the pretest of the instrument consisted of three steps, i.e., the content validation by those familiar with the study, personal interviews with marketing executives and a small scale mail survey. Revisions of the instrument's content and format followed each of these steps. Using the information from the sample selection procedure stage, the data collection consisted of four consecutive mailings. A detailed description of these procedures are presented in the subsequent sections of this chapter. The data analysis stage that followed consisted of the scale purification, sample description and the hypothesis testing stages; procedures used in this stage are described in Chapter 6.

## **Selection of Firms and Informants**

The objectives of this research and the conceptualization of the focal construct, International Retail Involvement (IRI) in the model (see Figure 2) necessitated the selection of a sample of retail firms, of which at least a certain proportion currently do have international retail involvement. As indicated in Chapter 2, based on reports in the trade literature and investigations of major consulting firms, an increasing interest in international retail activities is evident among retailers operating in the United States. However, at the present time, statistics or other sources of information listing the names of all U.S. retail organizations currently involved in international retailing, and the degree and the nature of such involvement are publicly unavailable.

Given that the sampling frame required to attain the objectives of this research does not readily exist, a sample of firms was selected from the listings of top U.S. retailers published by *Stores* magazine (i.e., the retail industry's leading practitioner oriented publication) in the months of July and August every year (Schultz, 1994; 1995; 1996). Retail organizations are ranked according to the sales volume in the previous year. Retail conglomerates operating more than a single retail store chain dominate these listings. In view of the absence of published information on U.S. retail firms' international involvement and the fact that sources in the trade literature indicate international retailers are more likely to be diversified, mature, successful and experienced retail organizations, the source selected appeared to meet the necessary requirements. In addition, a thorough review of trade sources revealed that a number of retailer organizations ranked in the *Stores* magazine do have international operations.

Since the focal construct of this research, the IRI, has been conceptualized as market-serving involvement in retail activities at the Strategic Business Unit (SBU) level

(i.e., the unit of analysis), respondents in this study had to be executives, vice presidents or top-level managers with the strategic planning responsibility for the business unit. Strategic business level is defined in this study as the lowest level in the organization at which strategic objectives are set. The term business unit or strategic business unit has been defined similarly in previous research attempting to explain and predict the behavior of organizations rather than individuals (Burke, 1984; Buzzel, Bradley and Sultan, 1975; Phillips, 1981). In the retail setting, the strategic business unit is believed to be an individual retail store chain operating stores under a single trade name. For this reason, those retail firms in the *Stores* magazine rankings which represented retail conglomerates were broken down into their constituent store chains, i.e., profit centers. For instance, the specialty conglomerate TJX Cos., which was ranked as the 41<sup>st</sup> largest retailer by total sales volume in 1995 (Schultz, 1996) consists of the following business units operating under various trading names: T.J.Maxx, Hit or Miss, Chadwick's of Boston, Winners Apparel Ltd. (Toronto, Canada) and HomeGoods. Each of the five retail store chains is considered as a unit of analysis in this study as these strategic units are believed to be separate entities in terms of the strategic planning process. Hence, in the remaining part of this document, the SBUs or (the unit of analysis in this study) are referred to as retail store chains or retail firms, and retail organizations ranked in the *Stores* magazines listings (which can be either a single or a multiple retail store chain operation) as retail companies.

The names of individuals qualified to provide necessary information on the topic of interest and the addresses of retail store chains were obtained from the following published sources: *Directory of Corporate Affiliations (1995)*; *Million Dollar Directory: America's Leading Public and Private Companies (1996)* and two CD-ROM sources: *Compact Disclosure* by Digital Library Systems (1996) and *Corporate Affiliations Plus*

by Reed Reference Electronic Publishing Company (1996). Individual respondents from each retail store chain identified from these sources are assumed to be knowledgeable and familiar with the firm's operations by virtue of their position (e.g., job title). Hence, individuals in positions of chief executive officers, vice presidents or directors of strategic planning, real estate, new business development, operations or marketing assumed the role of key informants in this study. This criterion seems to meet Campbell's (1975) recommendation that informants should occupy roles that make them knowledgeable about the issues under investigation.

Whenever adequate information was available (i.e., the names of operating officers and specific position titles), one or in most cases two individuals were identified within each SBU. The purpose of identifying two individuals whenever possible was to solicit more than a single response from at least some retail store chains, and to increase the effective response rate in this study. Having available more than a single response from a single retail store chain enables the researcher to assess the inter-rater reliability or the agreement between the two raters and judge the reliability and validity of informant reports in general. Problems associated with reliance on a single informant per unit of analysis have been widely noted in the literature (Phillips, 1981; Bagozzi, 1980), as such reliance does not allow an evaluation of the reliability and validity of responses, nor does it allow for a determination of potential sources of errors in such reports. Given these concerns, an attempt was made to obtain multiple respondents from a single retail store chain or SBU in the sample. Overall, this additional step is believed to have improved the confidence in the validity of the data collected. During the data pre-collection stage, it was decided that whenever more than a single response was obtained from a single unit, the report received earlier would count in the main data analysis and the report received later in the data collection would serve for an evaluation of the reliability. In case both

reports were received at the same time, the respondents' tenure with the industry and the company (data also collected by the instrument) would determine which of the two reports were included in the main study.

Using the published sources mentioned earlier, descriptive data was gathered to develop a profile of potential informants, individual retail chains and retail firms listed in the *Stores* magazine. The secondary data base produced included the names of operating officers believed to be suitable informants for this study by their position title, the names and addresses of retail firms, and when applicable their constituent retail store chains. In addition, whenever available, the following data on firms was included in the secondary database: the size of a retail organization in terms of its annual sales volume, the number of employees, the total number of retail stores the firm operates, and SIC codes indicating the retail store type in terms of its format and sector. This data was originally intended to be used for an evaluation of the non-response bias after the final data collection. A statistical comparison of the known demographic information on the respondents and non-respondents in this study could suggest whether the sample of respondents is representative of the initial sampling frame. However, the secondary data on retail firm size was available on the aggregate level only (i.e., for the entire retail firm/corporation) and not for the individual retail store chain or the SBU. This precluded use of the secondary database to judge the non-response bias in the analysis stage of this research.

In sum, non-purposive or criterion-based sampling is used in this study; any respondent identified as having the potential to represent a key informant was included. Random sampling from directories listing retail store chains operating in the U.S. was deemed inappropriate for the objectives of this research, primarily due to the small

number of retail firms with international operations at the present time. The criteria for this non-purposive sampling included the following:

- a retail chain or its corporation was listed among the top U.S. retailers (i.e., in the rankings of the 100 top retail corporations overall, 100 top specialty retailers, 20 top discount stores, 20 top supermarkets, 20 top home improvement chains, 20 top drug stores, 20 top department stores and 20 top apparel stores) in the *Stores* magazine rankings in any one year between 1994 and 1996;
- at least one of the SBU's head offices is located in the U.S. (some of the retail store chains listed in the rankings are foreign-based and owned retail firms);
- the SBU's activity is classified as retail and involves the operation of retail stores;
- names and addresses of knowledgeable informants are available from at least one of the following directories: *Directory of Corporate Affiliations* (1995); *Million Dollar Directory: America's Leading Public and Private Companies* (1996) and two CD-ROM sources: *Compact Disclosure* by Digital Library Systems (1996) and *Corporate Affiliations Plus* by Reed Reference Electronic Publishing Company (1996).

### **Development of Measures**

As noted in the literature, the first step in instrument development and scale construction involves specifying the domain of the construct being measured (Churchill, 1979; Dillman, 1978). Not all key constructs identified in the model of IRI (presented in the previous chapter) have been precisely defined and consistently measured in previous studies. In addition, most of the constructs had to be adapted to the specifics of the retail industry. A conceptual definition of each construct in the model has been suggested in the Chapter 4, building upon and modifying existing definitions. Operational definitions of the constructs in the model of international retail involvement are provided in the section below. Conceptual variables were measured by multiple indicators so as to improve validity and reliability (Peters, 1985). Throughout the scale development,

procedures recommended by Churchill (1979) and Gerbing and Anderson (1988) were followed.

### **Retail Differential Advantage**

The store chain's retail differential advantage has been previously defined as the specialized assets and skills in performing retailing activities which a retail chain possesses relative to or in relation to its major, direct competitors. Although Williams (1991) defined some dimensions related to retail specific advantages in his study of international retailers in the United Kingdom, the measurement of retail specific differential advantage has not been explicitly considered in the empirical literature specific to the industry under investigation. Working from the stated conceptual definition and the lack of specific measurements of this concept in the retail environment, the retail specific differential advantage was initially measured by fifteen items using, seven- point interval scales anchored by "low advantage" and "high advantage". The dimensions included were related to the retail chain's merchandise, its quality, design, price and assortment, private label programs, customer service, physical facilities, promotional activities, uniqueness of retail concept, store image and retail technology, distribution and relationship with suppliers. The respondents were asked to evaluate the dimensions of retail differential advantage relative to their major competitors. Also, the respondents had an opportunity to indicate two additional retail specific advantages not included in the listing and rate these on a seven-point interval scale.

## **The Firm's Knowledge**

As defined in the previous chapter, the concept of a firm's knowledge relates to the firm's information seeking behavior on international retail opportunities. To measure this concept, the respondents were asked to indicate the extent of their agreement or disagreement that the retail store chain's sought the information on opportunities in international markets in general, that this information was gathered from published sources, personal contacts within the industry, or from industry associations/government agencies, in-house market research and from consultants and research institutions. Furthermore, the respondents were asked to indicate the importance of gathering the information on their competitors' international moves and their performance in international markets. A total of six items measured the information seeking behavior dimension of the construct firm's knowledge.

## **The Firm's Experience**

The construct of a firm's experience is a two dimensional construct combining the ability of the firm's management to handle international expansion and the firm's actual experience in international business as indicated by the extent of its foreign sourcing experience. Both dimensions of the construct were measured by seven-point Likert-type scales anchored by "strongly agree" to "strongly disagree".

The first dimension of this construct relates to managerial ability to handle international expansion. Respondents were asked to indicate to what extent their retail chain's strategic decision-making team possessed know-how regarding international retailing and international business practices, had hands-on experience in international

business, travelled abroad to gain such expertise, and received formal training in international business. Five items in the instrument targeted managerial ability to handle international operations, which represented the second dimension of a firm's experience.

For the second dimension, it was deemed important that the respondents be made aware of the difference between just importing foreign-made merchandise through intermediaries in the domestic market and direct foreign sourcing. All the items in the survey were related to the retail store chain's own foreign sourcing activities. The firm's experience was measured by six items, assessed on a seven-point interval Likert scale anchored with "strongly agree" and "strongly disagree". The respondents were asked about the following issues related to direct foreign sourcing:

- a) the number of products sold in the retail chain which are purchased through a firm's foreign sourcing efforts rather than as imports through intermediary companies;
- b) the number of foreign countries used in the foreign sourcing efforts;
- c) the number of foreign manufacturers as used direct suppliers;
- d) the number of years the retail chain has been involved in foreign sourcing activities;
- e) the relationships established with direct foreign vendors in other countries, and
- f) the frequency of contacts with foreign direct suppliers.

Two of the six items measuring the construct of a firm's experience were stated negatively, as suggested by Churchill (1979), so as to avoid the response set bias.

### **Perceived Attractiveness of International Expansion**

The concept of perceived attractiveness of international expansion has been conceptualized as the system of attitudes and perceptions representing management's subjective evaluation of international retailing. This concept was operationalized as the favorability of management regarding the complexity, cost, risk and returns associated with international retail expansion; it was measured by an eight item seven-point Likert

scale with possible responses ranging from "strongly agree" to "strongly disagree". The statements comprising this scale are based on previous empirical and conceptual work with some of the items modified in that they reflect attitudes toward international expansion of a retail organization rather than an organization in any other industry.

The content of the items capturing the construct of perceived attractiveness of international expansion is presented below. As recommended by Churchill (1979), four of the statements are recast to be negatively stated in order to avoid response set bias:

- a) different cultures and languages in international markets make the transfer of retail stores into foreign countries extremely difficult
- b) international expansion increases a retailer's public image and prestige in the home market.
- c) international expansion drains a firm's resources.
- d) relative to domestic retailing, international retailing involves significantly higher risks.
- e) costs associated with the international expansion of a retail organization are a waste of retailer's resources.
- f) long-term profits from retailing in international markets are much higher than domestically .
- g) international expansion represents an opportunity to leverage a retailer's capital and human resources and to exploit economies of scale and scope.
- h) international expansion is becoming an increasingly viable avenue for future growth of a retail organization.

### **Domestic Market Growth**

The domestic market growth has been conceptually defined as a retail chain's future growth opportunities in the home market. These growth opportunities in the domestic market were assessed by adapting the six-item market attractiveness scale developed by Burke (1984) to a retailing environment. Burke's market attractiveness scale includes the following items: short term market growth rate, long term market growth rate, stage of product life cycle, prospects for future profits, average industry

gross margin and average pre-tax profits. All items were measured on a seven-point semantic differential scale. Several items in this scale were consistent with the domain of the perceptual measures of the operating environment used in previous studies in international marketing and retailing. Burke's original multi-item scale had established psychometric properties (Cronbach's alpha of 0.92). However, the items used in this research were adapted to a retail environment, and the final two items were replaced with other measures in order to better capture the domestic market prospects specific to a retail organization.

The six items below are measured on a seven-point semantic differential scale with different anchors (indicated in parenthesis):

- a) short term (3 year) market growth rate (low / high)
- b) long term (10 year) market growth rate (low / high)
- c) retail format maturity, i.e., the stage in the life-cycle of the retail format (decline/introduction)
- d) degree of saturation of the domestic market (low/high)
- e) chain's relative position in the industry (minor/dominant)
- f) prospects for future profits (low / high).

### **International Retail Involvement (IRI)**

International retail involvement (IRI) is the key dependent variable in the model presented in Chapter 4. The concept of IRI has been conceptualized as the market-serving involvement in retail activities at the strategic business unit level in more than one national environment. This variable was operationalized dichotomously. The retail firm was considered to have international retail involvement if it currently operates at least one retail store in any country outside the domestic market, regardless of the degree of ownership of international activities or the entry method used to in international markets (i.e., licensing, franchising, in-store concessions, joint ventures or fully or partly owned

acquisitions of new or existing stores). After the concept was clearly explained, the key informant was asked to provide a yes/no answer regarding the retail store chain's international involvement.

In order to evaluate the degree of international involvement of retail store chains with current operations in international markets, respondents who answered positively in the previous question were prompted to answer the following open-ended questions related to their international activities:

- a) number of different countries (other than domestic) in which their chain store currently operates retail stores
- b) number of years since the first retail operation in foreign countries
- c) number of retail stores in foreign countries

To explore all participating retail chains' past, present and future interest and involvement in international activities, an itemized scale was used, asking all the respondents to select one of the following categories:

- a) have never been involved in retail activities in countries outside the domestic market
- b) are not interested in retail expansion in countries outside the domestic market
- c) were involved in retailing outside the domestic market in the past, but no longer are
- d) do plan to expand internationally within the next 3 to 5 years
- e) intend to increase the extent of our international retail activities within the next 3 to 5 years
- f) intend to lower the extent of our international retail activities within the next 3 to 5 years
- g) intend to keep the same level of international involvement within the next 3 to 5 years

The above items were designed to cross-check the response reliability of the dependent variable IRI, to assess the overall interest of the retail store chain in international activities, and to describe the sample with current international involvement as well as to evaluate the degree of current international retail involvement.

## **Retail Firm Size**

The retail chain's size was measured by its annual sales volume and the number of full time employees in 1995. The respondents were asked to respond to open-ended questions related to the size of the retail chain. Again, it was emphasized to the respondents that the information should be given for the individual retail store chain and not the entire corporation if this retail chain was part of a retail conglomerate operating a number of retail establishments under various trade names.

## **Other Data Generated with the Instrument**

Additional data regarding the store chain's retail format, retail sector and characteristics of the informant were generated. The purpose of collecting this data was to describe the sample of the responding retail chains, and to assess the validity and reliability of the data collected.

The respondents were asked to select categories that best represented the format of their retail store(s) with respect to merchandise, pricing, atmosphere/services, promotion and location. The categories were adapted from those suggested by Berman and Evans (1995) and Hasty and Reardon (1997): general merchandise - department store, general merchandise - discount store, general merchandise - specialty store, food store - supermarket, food store - large combination store, convenience store, food/non-food warehouse store. In addition, respondents are given an opportunity to indicate a retail format not included in the listing by responding to the '*other*' category and specify the format of the retail chain by responding to the open-ended question.

In order to capture the retail sector of the responding retail chains, the respondents were asked to select one of the categories which best represented the primary focus of the merchandise in their stores. The categories were derived and adapted from the traditional SIC code categorization of retail organizations. These categories included: home furniture, furnishings & electronics; auto and home supply; building materials and garden supplies; apparel and accessories; drug store, and miscellaneous retail. If the former category is selected, the respondent was prompted to specify the primary merchandise type offered in the store ( not listed in given categories) with an open-ended question.

Also, the informants were asked to respond to two open-ended questions regarding their personal tenure (i.e., number of years) with the company and the retail industry in general. In addition, they were asked to indicate their level of involvement in choosing the strategic thrust of the company and store chain expansion decisions on a seven-point Likert scale anchored with "minor involvement" and "major involvement". The purpose of generating this data is to evaluate the appropriateness of the respondents as key informants. Although considerable care was used in the data pre-collection stage to identify and select key informants for this study, this additional step was intended to improve the reliability of the data collected.

### **Pretest of the Instrument**

After development of the initial measures for each of the constructs included in the proposed model, the pretest of the instrument was accomplished in three steps. The first pretest involved content or face validation of measurements for each construct and the questionnaire as a whole by those familiar with the research topic and the specific objectives of this study. The instrument was considered to be content valid after an in-

depth assessment provided by three faculty members and two doctoral candidates.

Revisions were then made in the content and format of the questionnaire.

The second step of the instrument pretest included survey evaluation and administration during personal interviews with three current and one former upper-level managers of firms with international involvement (two of the companies) and without international involvement as defined in this study. These individuals were considered to be similar to those participating in the actual study. The sample size of this pretest was intentionally kept small in order to systematically pretest the questionnaire by extensively probing the respondents on different facets of the questionnaire. The purpose of this pretest was to assess whether respondents understood the questions, could answer them and whether they were willing to provide the necessary information. The respondents were also asked to indicate the time required to complete the questionnaire and whether the length of the questionnaire should be modified. A further purpose of the pretest was to test the data collection procedures suggested by Dillman (1978), prior to implementing his 'Total Design Method' in the main study. The 30 minute interviews facilitated minor corrections in the wording of construct measurements, the format of the questionnaire, the sequence of the questions and mailing procedures. No major difficulties were observed concerning the ability and the willingness of the informants to complete the survey. The time required to complete the survey ranged between 10 and 15 minutes.

The third step of the instrument pretest included administering the instrument to a small sample of executives of retail companies with and without international retail involvement, i.e., retail chains considered similar to those participating in the actual study. This was a convenience sample, as it included retail firms for which rapport with a high ranking executive has already been established by either the researcher or the faculty at the University of Tennessee, and management of retail firms who participated in the

symposium on global retailing organized by a major University in the Southwestern part of the United States. The convenience sample for this pretest consisted of 27 representatives of 13 retail chains. The participants received by mail a cover letter along with a questionnaire and a short form '*Your Comments on the Survey*', which they were requested to fill out and return in an enclosed stamped envelope. Out of the initial 27 surveys and comment forms sent out for the purpose of instrument pre-test, 12 responses were received, representing a response rate of 44.44 percent.

While the number of this pretest observations was too small to assess the psychometric properties of the scales, the comment forms and the questionnaires were reviewed and evaluated for content and completeness. Based on the results of this test, minor changes were made in the the format following suggestions made by the respondents, but no changes in the content were deemed necessary.

### **Data Collection**

The data required to attain the objectives of this research were collected via a mail survey directed to 638 potential informants identified. Since the conceptual framework proposed in this research and the measures developed concern the attributes of a specific strategic business unit, individual respondents assumed the role of the key informant, each providing information for a retail chain operating under a single trade name. All the informants identified are assumed to be knowledgeable about the topic under investigation.

The questionnaires were mailed with a cover letter using the university letterhead, a self-addressed postage pre-paid return envelope, and an *Executive Summary Request* card. The cover letter provided a brief description of the study and its objectives, and

emphasized the importance of the informant's participation to the study's success, regardless of whether the retail store chain was or was not involved in retailing in international markets at the time. The results of the findings were offered to the participants in exchange for sharing their opinions and providing the data. Respondents were prompted to write their address on the *Executive Summary Request* card and return it along with a completed survey if they were interested in receiving a personal copy of the report summarizing the findings of the study in Spring/Summer of 1997.

The cover letter also emphasized that responding to the survey did not require disclosure of any proprietary strategic or financial information. The letter as well as the survey guidelines on the first page of the questionnaire contained assurances that all responses would be kept in strict confidence and that the data collected would be grouped together with that of other respondents. As such, data on individual retail store chain or informant would never be disclosed in any shape or form.

The final eight-page questionnaire (Appendix A) consisted of five sections covering various topics of interest. The first page consisted of detailed survey guidelines, where it was again stressed that informants complete the questionnaire regardless of whether international expansion currently is or is not a viable avenue for future growth of their retail store chain at the present time. In order to ensure that the unit of analysis in this study was an individual retail store chain or SBU, the respondents were asked to respond to the questions in the survey in reference to a single retail store chain and not the entire corporation, if their retail chain was part of a retail conglomerate operating a number of retail establishments under various store names and retail formats. The informants were prompted to respond to questions about the store chain specified in the cover letter. If no one specific chain was identified (in very few cases), the informants were prompted to refer to the single retail store chain they felt most knowledgeable about.

The sequence of measurements in the instrument was such that 'less threatening' questions were positioned at the beginning of the questionnaire and more sensitive questions at the end. Following the survey guidelines, Part I of the survey involved questions related to the comparative advantages of the store chain's retail mix and future growth opportunities in the domestic market. The second part of the survey targeted the measurements related to the construct of international sourcing experience of the retail chain. In order to assure the validity of the construct measurement, it was deemed necessary to clearly define the concept of international sourcing experience and differentiate it from merely importing foreign-made merchandise through intermediary companies operating in the domestic market. Part III of the survey obtained information on the retail chain's past, present and anticipated retail involvement in international markets, while Part IV dealt with informants' opinions regarding the attractiveness of international expansion and the retail firm's knowledge and management capabilities in getting involved in international retailing. The last section of the questionnaire consisted of open and closed-ended questions regarding the store chain's characteristics and descriptive characteristics of the informant and his/her involvement in the strategic decision making for the retail store chain.

The administration of the mail survey followed the guidelines suggested by the Dillman's (1978) Total Design Method. The mailing procedure involved four mailings. The first follow-up was in a form of a reminder letter sent to all informants one week after the original mailing. The third mailing or the second follow-up included a letter to non-respondents along with a survey, the postage-paid envelope and the *Executive Summary Request* card four weeks after the first mailing of the questionnaire. The final follow-up was in a form of a reminder postcard seven weeks after the original mailing.

Copies of the documents used in communicating with informants in all stages of data collection are presented in Appendix B.

### **Response Rates**

Using the listings of retail companies ranked as top U.S. retailers by *Stores* magazine between 1994 and 1996 as the basis on which to identify retail chains to be included in this study, and the published sources mentioned under section B of this chapter, 341 retail store chains meeting the criteria specified in the data pre-collection stage were identified. Two informants were identified for most of the retail chains. The survey instrument was mailed out to all 638 of these individuals. The four waves of mailings yielded a total of 79 responses from 74 different retail store chains. In the case of five retail chains, responses were obtained from both informants contacted.

The effective response rate in this study was 21.70 percent. Five retail store chains notified us by fax, phone or mail that their company policy prevented their participation in this or any other study. Altogether twelve questionnaires were returned because the informant was no longer with the company, in the position indicated in the address label, or because of an inaccurate address.

The returned questionnaires were screened for completeness. With the exception of some missing data, all but one questionnaire were usable. Due to the item non-response in the majority of the scales, this one questionnaire was excluded from further consideration and not used in the analysis stage. Thus, 73 actual surveys were included in the main data analysis; the remaining five questionnaires were used to evaluate the inter-rater reliability.

## **Summary of Research Methodology**

The purpose of this chapter has been to outline the methodology used to test the model of IRI and related hypotheses developed in Chapter 4. This chapter has described the process of retail chain store and informant selection, instrument development, data collection procedures and response rates. The research design utilized both modifications of existing measures and measures specifically developed for the purpose of this study in order to better capture the idiosyncrasies of the retail industry and its international involvement. Results of the analyses employed to describe the sample, purify the measures and to test the hypotheses in this study are detailed in the next chapter.

## **CHAPTER 6**

### **DATA ANALYSIS AND FINDINGS**

The purpose of this chapter is to detail the analysis of data collected and to report research results. As indicated in Figure 3 presented in the previous chapter, the data analysis stage consisted of three separate steps. The first one involved statistical analyses employed to describe the sample, i.e., the retail store chains and the informants. The next step included the statistical analytic methods used to evaluate the psychometric properties of the scales and analyses applied to data for preparation for the hypotheses testing stage. The statistical methods employed in this stage consisted of principal component analyses and alpha coefficient estimates. Once evidence was obtained to support the internal homogeneity and reliability of the measures used in this study, the final stage in the analysis procedure was undertaken. The hypotheses and the model of IRI were tested via logistic regression.

#### **Sample Characteristics**

This description of sample characteristics is comprised of two main parts, i.e., a description of the sample retail chains, including an assessment of the non-response bias, and a description of the informants in this study along with an assessment of the inter-rater reliability. Several preliminary descriptive statistical tests were performed before evaluating the psychometric properties of the survey instrument and testing the hypotheses proposed in this research.

## **Characteristics of Retail Chains**

In this section, characteristics of the sample retail chains are described in terms of retail chain sales volume, number of employees, number of states in which they operate retail stores, number of stores in the retail chain, age of the chain, store format and retail sector, international involvement and their present past and future participation in international involvement. Some of these characteristics are contrasted between firms that presently do and do not operate retail store(s) in other countries. Then, the scope of international involvement of retail chains with international retail involvement is detailed in terms of the number of countries in which these retail chains operate, the number of stores they have in international markets and the number of years they have been involved in international retailing. Lastly, the non-response bias is assessed by comparing the sample retail chains returning the survey in the first wave of the questionnaire mailing and the second wave of the questionnaire mailing on the sales volume, employment, age, geographic coverage and number of stores within the chain.

Table 1 shows that the total sample consisted of 73 retail chains, of which 24 retail chains or almost 33 percent were involved in retailing internationally. The mean dollar sales volume in 1995 for the total sample was over four billion dollars; the sales volume in the sample ranged between 25 million and almost 75 billion dollars. The standard deviation of over 10 billion dollars in the total sample indicates a wide variety of differences in this measure among participating retail chains; the median sales volume is one billion dollars. The mean number of full time employees in the total sample is 30,251 with a standard deviation of almost 76,249, indicating large differences among the retail chains. The median number of employees in the sample is 6,500 and the range is between 280 and 500,000. As reflected in Table 1, the mean number of stores the individual retail

**Table 1. Sample Characteristics and Comparison of Means in the Sample with and without IRI**

Characteristics	Total Sample			Sample with IRI		Sample without IRI	
	Mean	S.D.	Median	Mean	Median	Mean	Median
Volume (in \$ 1,000)	4,217,340.44	10,169,142.49	1,000,000.00	8,634,494.25	2,000,000.00	2,053,791.84	1,000,000.00
Employees	30,251.82	76,248.92	6,500.00	65,404.54	6,000.00	13,034.16	7,000.00
# of Stores	610.16	875.19	331.00	982.79	500.00	427.65	260.00
# of States	26.99	16.22	28.00	35.13	39.00	39.00	23.00
Age	47.97	30.63	40.00	47.91	48.00	48.00	40.00
N (%)	73 (100)			24 (32.9)		49 (67.1)	

chains in the sample operated was over 610, with a median of 331 and a range between nine and 4,991 stores. Again, this characteristic reflects quite a diversity in the sample store numbers. On the average, the participating companies operated retail stores in almost 27 different states, ranging between 1 and 50 states with the median of 28. The mean age of the retail firms in this study was almost 48 years, with a median of 40 years.

To compare the differences between the sample chains with and without international involvement, the means on these same descriptive parameters are also presented in Table 1. It is evident that retail chains with international involvement had, on the average larger annual sales volume, employed more people, operated a larger number of retail stores, and their geographical coverage in the home market was broader. The two groups of retail chains were very similar in terms of their average age of retail chain's existence. The median numbers of all five parameters show similar trend, with the exception of the number of employees which was lower for retail chains with international involvement (6,000) than without IRI (7,000). Also, median ages of the two groups differed with the sample with IRI being eight years older than the sample without IRI.

The frequencies of different store formats and retail sectors of participating companies are displayed in Table 2. Since a large number of respondents failed to answer one or both of the questions targeting these two characteristics, percentages of those did respond are also given in the table. For this reason, the percentages do not add up to 100. Again, the comparison of retail chains with and without international involvement in the sample is made. The specialty store retail format was far the most prevalent among the participating retail chains in the sample (23), followed by the department store (12), discount store (9) and by the supermarket and combination food/non-food format (7). The best represented retail sector in the sample is the apparel and accessory group (21), while

**Table 2. Store Format and Retail Sector of Participating Retail Chains**

FORMAT/ SECTOR	Total Sample		Sample with IRI Percent	Sample without IRI Percent
	Frequency	Percent		
Department store	12	16.4	12.5	18.4
Discount Store	9	12.3	12.5	12.2
Specialty store	23	31.5	20.8	36.7
Food Supermarket/ Combination	7	8.6	12.5	8.2
Convenience	2	2.7	8.3	0
Other Format	1	1.4	0	2
FORMAT TOTAL	45	72.9	66.7	77.6
Home Furn. & Electronics	7	9.6	16.7	6.1
Bldg. & Garden Supply	4	5.5	4.2	6.1
Apparel & Accessory	21	28.8	25	30.6
Drug Store	2	2.7	0	4.1
Miscellaneous	10	13.7	12.5	14.3
SECTOR TOTAL	44	59.6	58.3	61.2

other categories were home furnishings and electronics (7), building materials and garden supplies, drug store (2) and miscellaneous (10). Comparing the two groups, retail chains with and without present involvement in international retailing, no specific pattern of store formats and retail sectors can be discerned, as shown in Table 2. Again, the specialty store format (20.8 % and 36.7 %) and the apparel and accessory sector (25 % and 30.6 %) were best represented in both of two groups of retail chains, i.e., with and without international retail involvement.

As far as the participating retail chains' past, present and future interest and involvement in international retailing is concerned, two retail chains indicated that they are not currently involved in retailing internationally, but have been so in the past. Out of 49 retail chains without current IRI, 36 indicated that they are not interested in international expansion, and 15 retail chains planned international expansion within the next three to five years. Twenty-four retail chains presently operated at least one retail store in markets other than the home market; of these, 21 retail chains indicated they plan to increase the extent of their international involvement within the next three to five years, and two of them planned to keep the same level of international involvement within the same time frame. None of the retailers currently active in international operations indicated any plans to decrease the extent of their involvement in international retailing.

Table 3 reflects the scope of international involvement of the 24 retail chains which currently operate retail stores in international markets in terms of the number of different countries in which they currently operate retail stores, the number of retail stores in international markets, and the number of years they have been involved in international retail activities. The average number of international markets was slightly over seven foreign countries with the median number of five foreign countries and the standard

deviation of 7.6. This number ranged between one and 30: almost half of the sample retail chains with IRI were present in only three foreign countries or less; only three retail chains operated retail stores in twenty or more different foreign countries. The average number of retail stores the chains in the sample operated in international markets was 1,188.52 with the standard deviation of over 3,000 and the median of 50 stores. The range of number of stores in international markets was between one and 11,000 stores: over a half of the international chains operated 50 or fewer stores in international markets; only two retail chains operated over 10,000 stores in foreign countries. The average number of years retail chains have been involved in international retailing was about 12 years with a median of six years and a wide range between one and 60 years. While only three retail chains had a tenure over thirty years in international retailing, the majority of participating retail chains (67 percent) had a tenure of less than ten years.

**Table 3. The Scope of Retail Chains' International Involvement**

Scope	Mean	S.D.	Median	Range
Foreign Country(ies)	7.05	7.6	5	1-30
Number of Stores	1,188.52	3,148.88	50	1- 11,000
Years of IRI	12.31	14.39	6	1-60

***Non-response Bias***

A secondary database on retail companies listed in the *Stores* magazine rankings was established, consisting of the size of each retail company, its age and other available characteristics.. This data was originally intended to be used for an evaluation of the non-response bias. A statistical comparison of the known demographic information on the respondents and non-respondents could suggest whether the sample of respondents is representative of the initial sampling frame. However, the secondary data on retail firm

size was for the most part available on the aggregate level only (i.e., for the entire retail firm/corporation), and not for individual retail store chains or the SBUs. This precluded the use of the secondary database to judge the non-response bias.

As an alternative, it was decided that a comparison of retail chains' characteristics between the first and the second survey mailing respondents would serve as a basis for the evaluation of non-response bias. As indicated in the literature, informants responding in the later stage of the mailing procedure typically more closely resemble those companies who never responded to the survey (Green, 1991). To compare the sample retail chains which responded in the first and the second questionnaire mailing, and to identify whether the two groups differ significantly across the descriptive parameters of interest, significance analysis was conducted. The results of the t-tests are presented in Table 4. The results indicate that the two groups of respondents differed significantly in the sales volume and the employment parameters at the 0.10 percent level. No significant differences can be detected regarding the retail chains' number of stores, the number of states they operate in or the age of the retail chains between the two groups.

**Table 4. Evaluation of Differences between First and Second Wave Responses**

Characteristics	First Wave Responses		Second Wave Responses		Significance Test	
	Mean	S.D.	Mean	S.D.	t	Sig.
Volume (in \$ 1,000)	1,702,190.91	1,980,301.15	6,292,284.05	13,338,935.83	-1.957	0.054
Employees	9,758.06	10,017.27	47,159.18	100,012.24	-2.137	0.036
# of Stores	599.61	748.26	618.88	976.98	-0.093	0.926
# of States	26.03	15.21	27.78	16.98	-0.458	0.649
Age	14.03	29.26	13.90	32.09	-0.269	0.789
N (%)	33 (45.3)		40 (54.7)			

Given the large standard deviations on all measures, but particularly in sales volume and employment parameter, an additional nonparametric statistical analysis was undertaken to increase the confidence in results obtained from previous analysis. Table 5 presents the results of the Mann-Whitney test, whereby the observations in both groups are combined and ranked. The null hypothesis tested is that the means between the two groups are the same. The results indicate that the first and the second wave retail chains do not differ

**Table 5. Mann-Whitney Test of Differences between First and Second Wave Responses**

Characteristics	First Wave Responses		Second Wave Responses		Significance Test	
	Mean Rank	Sum of Ranks	Mean Rank	Sum of Ranks	Mann-Whitney U	2-tailed prob.
Volume	33.70	1112.00	39.72	1589.00	551.00	0.227
Employees	33.26	1097.50	40.09	1603.50	536.50	0.171
# of Stores	38.39	1267.00	35.85	1434.00	614.00	0.610
# of States	35.53	1172.50	38.21	1528.50	611.50	0.591
Age	37.15	1226.00	35.95	1402.00	622.00	0.808
N (%)	33 (45.3)		40 (54.7)		-	

on any one of the five parameters at or below the 0.05 confidence level. Hence, it can be concluded that the retail firms participating in this study are not believed to have differed from those retail chains not responding.

### **Characteristics of the Informants**

A total of 638 informants representing 341 individual retail chains (or SBUs) that met the criteria set out in the pre-data collection stage were contacted to participate in this

study. Usable questionnaires were obtained from 78 respondents representing 73 retail chains operating under individual trade names. The reliance on informant reports for testing the hypothesized relationships necessitates an evaluation of the appropriateness of respondents as key informants for the topic under investigation. In addition, an assessment of the level of inter-informant agreement, i.e., the extent to which two informants from the same retail chain (five such double-reports were available) agreed on the main issues in question is necessary to make possible a judgement on the inter-rater reliability of the reports in general. Each of these two issues and the results of evaluations are provided below.

As discussed in Chapter 5, considerable care was used in the data pre-collection stage to select informants occupying positions or roles within their respective retail chains which would attest to their knowledge of the issues addressed in this research. In this, job titles were the main criteria for identifying the respondents. In addition to these earlier considerations, the appropriateness of respondents as key informants was assessed based on the self-report information obtained from the respondents in the last section of the survey. The three questions targeting appropriateness of informants were related to the informant's tenure with the company, tenure with the retail industry in general, and the level of the informant's involvement in choosing the strategic thrust of the company and store chain expansion decisions on a seven-point Likert scale anchored with "minor involvement" and "major involvement". The purpose of obtaining this self-report information was that informants with a long personal tenure with the retail chain and the retail industry, having substantial involvement in the expansion decision making for the retail chain would be in a position to provide information on their chains' retail specific differential advantages, international sourcing activities, information gathering activities regarding international retailing, past, present and future international involvement of the

retail chain, and would be cognizant enough to make judgments regarding the retail chain's management capabilities and corporate culture in regards to the attractiveness of international retail expansion. These characteristics of sample respondents are presented in Table 6. These characteristics suggest that an average informant in this study had a personal tenure of almost 14 years with his/her retail chain and over 21 years of tenure in the retail industry. On the average, a respondent's involvement in strategic decision making for the chain was 6.03 or 'almost' major involvement, which verifies that informants, on the average, occupied top level management positions in their respective retail chains. Hence, it can be concluded that the sample of informants in this study possessed knowledge and had access to the information required to adequately respond to the questions under consideration in this research.

**Table 6. Characteristics of Sample Informants**

CHARACTERISTICS	MEAN	S.D.	MEDIAN	RANGE
Years with the Retail Chain	13.96	9.76	12	1 - 45
Years with the Retail Industry	21.42	8.82	22	4 - 45
Level of Decision Making Involvement	6.03	0.84	6.0	3 - 7

***Inter-rater Reliability***

As noted in the previous chapter, problems associated with reliance on a single informant per unit of analysis have been noted in the literature (Phillips, 1981; Bagozzi, 1980), as such reliance does not allow an evaluation of the reliability and validity of responses, nor does it allow for a determination of potential sources of errors in such reports. Typically, this issue is discussed in the context of measurement validity and

reliability, as the original identification of respondents or the respondents' reporting process could be a source of error.

In this study, responses were received from both individuals selected for participation from five retail chains. Based on the above considerations, the overall degree of inter-rater agreement was assessed using pairwise product moment correlations and significance analysis on the differences in the overall mean responses between the two respondents from the same retail chain. For this purpose, the data in the ten reports (representing five double responses) was rearranged with the SPSS 7.0 program in such a way that informants were treated as variables and responses to individual survey items (all perceptual measures) as cases or observations.

The results of these analyses, i.e., the mean values, the ten pairwise correlations (r-values) with their significance levels, and the ten paired sample t-tests with t-values and the significance levels are presented in Table 7. The examination of the five pairwise product moment correlations indicates that inter-rater correlations are relatively high (i.e., greater than 0.5) in the case of retail chains number 1, 4 and 5, while in the case of retail chains 2 and 3 are lower, i.e., 0.46 and 0.36, respectively. However, the correlations are significant below the 0.05 level as indicated in the column adjacent to correlation coefficients.

The paired t-test analysis (the last two columns in Table 7) tests the differences in the overall mean responses of the two reports per single retail chain. The null hypotheses tested here are that there are no significant differences in the mean responses between the two raters.

The results presented reveal that these null hypotheses can be rejected only for retail chain 1 (the differences between the two raters are significant at 0.01 level).

**Table 7. Pairwise Correlations and Paired Sample t-tests For Inter-rater Agreement**

Informants	Mean	r-value	2- tail probability	t-value	2- tail probability
Retail Chain #1 Informant A	3.22				
Informant B	4.74	0.629	0.000	-5.862	0.000
Retail Chain #2 Informant A	4.09				
Informant B	4.06	0.459	0.002	0.075	0.940
Retail Chain #3 Informant A	4.67				
Informant B	4.28	0.354	0.016	1.721	0.092
Retail Chain #4 Informant A	3.60				
Informant B	3.90	0.682	0.000	-1.546	0.130
Retail Chain #5 Informant A	5.19				
Informant B	5.33	0.792	0.000	-0.799	0.429

The null hypothesis cannot be rejected for the remaining four retail chains since the overall means are not significantly different at 0.05 level. Hence, in four of five instances, the mean responses of different informants within the same retail chain are not significantly different.

Given that the measurements considered in this analysis are perceptual, these results are very encouraging, suggesting an overall good reliability between the two respondents. However, they need to be interpreted with care, primarily because both analyses, the correlation coefficient and paired sample t-tests, were based on all perceptual items in the questionnaire. Such an aggregate level inter-rater agreement, while promising, does not preclude a possible lack of agreement in responses to items in individual scales. Also, the observed high consensus in the reports cannot be

extrapolated with confidence to all the remaining participants in this study, considering that multiple reports were available for only five out of 73 retail chains.

The analyses presented so far examine the overall degree of inter-rater agreement. In order to further explore the actual source of discrepancies, the data on perceptual measures was examined by individual scales. The two raters were believed to be in agreement if their responses to individual items within a scale did not differ beyond +/- 1.0 point on a 7-point Likert scale. The results of these analyses are presented in the Table 8, indicating the percent of items within an individual scale with which both raters agreed.

**Table 8. Inter-Rater Agreement by Individual Scale**

Scale (# of items)	Retail Chain #1 (%)	Retail Chain #2 (%)	Retail Chain #3 (%)	Retail Chain #4 (%)	Retail Chain #5 (%)	Mean (%)
RDA (15)	46.67	60.00	46.67	93.33	80.00	65.34
DMG (6)	83.33	83.33	83.33	100.00	83.33	86.66
FSEXPR (6)	66.67	33.34	33.34	50.00	100.00	56.67
PAIE (8)	25.00	75.00	75.00	75.00	62.50	62.50
FKINFO (6)	16.67	66.67	83.33	83.33	100.00	70.00
FMNGT (5)	83.33	83.33	60.00	80.00	80.00	77.34
Mean (%)	53.61	66.95	63.61	80.28	84.31	69.75

Table 8 reveals various levels of inter-rater agreement by measurement scales. While the agreement in the scale measuring retail differential advantage (RDA) ranges between 47 to almost 94 percent across the five retail chains, the scales targeting domestic market growth (DMG) opportunities and firm's management (FMNGT) capabilities have both high inter-rater agreement, ranging between 83 and 100 percent, and between 60 and 83

percent, respectively. The scale for the construct the foreign sourcing experience (FSEXPR) has, overall, the lowest level of item inter-rater agreement (56.67 percent), whereas the agreement in the measures of the perceptions of attractiveness of international expansion (PAIE) ranged between 25 and 75 percent. The agreement in the scale for the construct firm's knowledge as indicated by its information gathering activities (FKINFO) is relatively high, except for the relatively low level of agreement between the two raters for the retail chain number 1 (16.67). Although the examination of the five multiple reports reveal some lack of agreement on the items concerning FSEXPR, PAIE and RDA, reports appear to be quite congruent. Overall, the percentages of agreement by individual retail chain (last row in Table 8) are well over 60 percent in all instances but in retail chain number 1 (53.61 percent). The overall mean agreement in all the scales across five double reports is almost 70 percent.

In summary, analyses performed in this section evaluated the descriptive characteristics of participating retail chains and informants in this study. Comparison of descriptive parameters of retail chains with and without international retail involvement indicated that retailers in the sample that are present in markets other than the home market are different on almost all measures, but particularly on the sales volume, employment, number of retail stores in the chains and geographic coverage (i.e., number of states) of their operations. No specific patterns of differences in store format or retail sector were discerned. The degree of retail chains' international involvement varied widely on all measures, i.e., the number of foreign countries, the number of stores in international markets and years a chain has been involved in international retailing. Judging the non-response bias on the basis of first and second questionnaire mailing responses, significant differences were established on the employment of retail chains,

but on none of the other descriptive parameters. The analysis of informant characteristics revealed that managers participating in this study possess the desired qualities to assume the role of key informants. And lastly, judging inter-rater reliability of informant reports on the basis of double questionnaires received from five retail chains, high overall inter-rater agreement is established. The examination of the percent of inter-rater agreement on items within individual scales reveal some lack of agreement on scales for FSEXPR, PAIE and RDA whereas again, the overall percentage of agreement between the two raters is relatively good. To this end, scale purification process will be discussed in the next section.

### **Scale Purification Process**

The scale purification process described here is divided into two distinct phases according to the procedures utilized and results presented, i.e., the initial purification and the final purification phases. The procedures used for assessing the psychometric properties of the survey instrument follow the paradigm proposed by Churchill (1979), which centers around the evaluation of the reliability and validity of the instrument. Procedures, analyses and results are presented in the sections below. A discussion on the overall reliability and validity of the measurements is presented in the concluding section.

#### **Initial Purification Procedures and Results**

In view of the decision made in the proposal stage of this study, i.e., that orthogonal factor scores produced by principal component analysis be used as independent variables in the logistics regression when testing the proposed hypotheses,

the primary statistical methods used in evaluating psychometric properties of individual measures in the model consisted of exploratory factor and reliability analyses.

The five constructs in the model, i.e., retail differential advantage (several dimensions), firm's knowledge, firm's experience (two dimensions), perceived attractiveness of international expansion and domestic market growth potential are all single multi-item measures. Hence, the purification techniques consisted of an iterative process testing for the internal homogeneity of measures developed for each of the constructs and assessed by a) a factor-structure of single multi-item measures using principal component analyses on each individual scale, and b) coefficient alpha estimates for the correlation among items derived through the initial factor analysis on a given scale. The latter procedure tests the reliability of a measure (high reliability refers to low measurement error) and indicates the extent to which measurements are repeatable and stable (Nunnally, 1978). Although various methods are available for estimating reliability of a measurement scale, the measurement of reliabilities in this study are based on the domain sampling theory, which attributes the primary source of measurement error to inadequate sampling of the domain of relevant items, and relates the measurement error and reliability to the internal consistency of the items included in an instrument (Churchill, 1979). Taking into consideration suggestions by Nunnally and Bernstein (1994), and the nature of this research, a threshold value for the alpha level was set at 0.70 in this study. Thus, the measure was considered acceptable if the alpha of 0.70 or above is computed.

In the principal component analyses, the criteria employed in the examination of factors were: a) factors with eigenvalues greater than one (i.e., latent root criterion); b) plot of latent roots against the number of factors extracted (i.e., scree test criterion); and c) the percentage of variance explained by successive factors (i.e., percent variance

criterion). The purpose of using these multiple approaches was to focus the analysis on the simplest factorial structure which best represents the underlying relationship among the scale items (Hair, Anderson, Tatham and Black, 1995). Varimax orthogonal rotation was employed where factor loadings of +/- 0.40 or above were used to examine the distribution of primary, secondary or subsequent factor loadings. Further criteria employed in evaluating items' loadings and their potential deletion from further analysis were as follows: a) items demonstrating secondary derived cross loadings, b) items failing to load on any of the factors produced, c) items exhibiting low factor loadings on a dimension - factor with which they should be strongly correlated, and d) items loading strongly on a factor that does not reflect the latent construct underlying the extracted factor (e.g., it representing a dimension conceptually different from the item in question). Moreover, it was determined that factors comprised of a single item would be excluded from subsequent statistical analyses. This additional criterion was established due to the relatively small number of total observations available for testing hypothesis in the later stage of the data analysis. Once the items were factor analyzed and purified, the scales' alpha levels were computed. In this sequential process, the new factor analysis and coefficient alpha level for the purified scale were examined to determine whether an additional item should be removed from further analyses. Using this process of purification, some information was lost, however, the quality of the remaining measures produced more powerful results in subsequent analyses as well as stronger interpretation of the findings due to scale purity.

The construct of Retail Differential Advantage (RDA) was measured on a scale containing 15 items. No *a priori* predictions were made regarding the number of dimensions contained within this construct. The initial principal component factor analysis with varimax rotation resulted in a six factor solution. One of the factors was

comprised of a single item (i.e., RDA related to a retailer's private label program), and was eliminated from further consideration according to the preset criteria described earlier. The item representing RDA related to price of merchandise offered in the store was also eliminated because of the cross loadings of over 0.50 on two factors. Coefficient alpha levels were calculated for the remaining five factors. Factors 1, 2 and 4 (composed of three, four, and two items, respectively) were retained for further consideration, as the alpha coefficient obtained was greater than 0.70. The four items in Factor 3 and 5 (both two items) were deleted due to the insufficient reliability of the measure (i.e., alphas of 0.6583 and 0.6104, respectively). Thus, the remaining three factors, consisting of nine items, were retained for further analyses.

The construct Domestic Market Growth (DMG) potentials were measured by six items believed to represent a single measure. However, the exploratory factor analysis with varimax rotation produced two factors. While Factor 1 consisted of three items (DMG1- DMG3) with an alpha coefficient of 0.8335, the items in Factor 2 (DMG 4- DMG 6) did not pass the reliability criterion (alpha of 0.1936) and were thus omitted from further consideration.

The firm's experience in international activities was measured by six items describing a retail chain's Foreign Sourcing Experience (FSEXPR). As anticipated, a single factor was derived from the principal component analysis. The alpha coefficient of 0.9155 met the criteria set for reliability of measures. Accordingly, purification of the firm's experience scale was not deemed necessary and hence, the original scale was kept intact in further analyses.

The construct of firm's knowledge was believed to have two distinct dimensions, a retail firm's information seeking behavior on international activities denoted by Firm's Knowledge - Information (FKINFO) measured on a scale with six items, and the firm's

management capabilities of handling international expansions denoted by Firm's Knowledge - Management (FKMNGT) measured on a scale with five items. Principal component analysis was employed on each scale separately. Each of the analyses resulted in a single factor. Reliability estimates for FKINFO and FKMNGT were 0.8728 and 0.8791, respectively. Thus, the original two scales were kept intact in further analyses.

The construct Perceived Attractiveness of International Expansion (PAIE) was measured by eight items believed to represent a single factor. However, the principal component analysis with varimax rotation resulted in two distinct factors. Factor 1 consisted of five items (i.e., PAIE 1, PAIE 3, PAIE 6, PAIE 7, PAIE 8) which produced an alpha coefficient of 0.8207, while Factor 2 consisted of three items. Since the items in the second factor did not meet the reliability threshold (alpha of 0.3728), these three items, i.e., PAIE 2, PAIE 4 and PAIE 5, were eliminated from further analyses.

This initial scale purification phase thus produced eight constructs represented by 34 items from the original instrument. A total of 15 items were eliminated from further consideration in this phase. The constructs, number of items in the scale before and after purification, and reliability estimates for individual scales after the initial purification are summarized in Table 9.

**Table 9. Reliability Estimates of the Measures in the Instrument After First Purification**

Construct	Original Items	Items Retained in the Scale	Coefficient Alpha
RDA 1	15	3 (RDAIMAGE, RDAFACIL, RDASRVCE)	0.8016
RDA 2		4 (RDAMERCH, RDAPROD, RDADISTRIB, RDASUPP)	0.7092
RDA 3		2 (RDADESIGN, RDAQUALITY)	0.8039
DMG	6	3 (DMG1 - DMG3)	0.8335
FSEXPR	6	6 (FSEXPR1 - FSEXPR6)	0.9155
FKINFO	6	6 (FKINFO1 - FKINFO6)	0.8727
FKMNGT	5	5 (FKMNGT1 - FKMNGT5)	0.8791
PAIE	8	5 (PAIE 1, 3, 6, 7,8)	0.8207

### Final Purification Procedures and Results

While the aforementioned initial purification procedures address the internal consistency considerations of individual scales, these analyses do not provide information about the factorial composition of the entire instrument. To assess the internal structure of all measures' components and the relationship among them, a principal component analysis was conducted on all the items remaining after the individual measure purification described earlier. Since the orthogonal factors were used in subsequent statistical testing of the model of IRI, a few additional items were being removed (and new coefficient alpha levels computed) in order to confirm the factorial composition of the constructs that were hypothesized to be multidimensional. Also, this procedure was deemed necessary to force unidimensionality of the model constructs measured by single multi-item scales prior to considering them as reliable measures of the underlying

construct. In particular, the two constructs of the firm's knowledge and the firm's management capabilities to handle international expansion appear to be conceptually related. In addition, both of these constructs are perceptual measures. Given that multicollinearity should be of primary concern when employing regression analysis (as in the hypothesis testing stage of this research), the unidimensionality and nonindependence between the measures should be carefully evaluated. High factor loadings were expected on the same factor by those items included in the same measure. If various measures capture different attributes of the same underlying characteristics reflected by the entire set of measures, then those items measuring the same attribute should not have high loadings on dissimilar attributes. Nonindependence between the measures is therefore suggested by high factor loadings on the same factor by items purporting to measure different attributes of the entire set of measures. The results of reliability and factor analyses on all remaining items are presented below.

The criteria for retaining items in the principal component and subsequent reliability analyses, and the iterative nature of the process in this final purification phase equal the initial purification process, and will thus not be repeated in this section. The 34 remaining items in the instrument and two additional items constituting the construct of firm's size (i.e., annual sales volume and number of full time employees of a retail store chain), which is also a construct proposed in the model of IRI were subjected to a principal component analysis with varimax rotation. Factor analyzing all nine measures in the instrument provided a stronger test of each scale's independence than the individual analyses performed initially.

A two step iterative purification process was performed in this final phase, whereby the items demonstrating cross loadings or other undesirable characteristics discussed earlier were removed sequentially and the internal consistency of the remaining

items within each scale was reassessed prior to repeating the factor analysis procedure. This process was continued until completely unidimensional subscales with independent derived loadings were obtained.

During this iterative process, an additional five items were removed from further consideration. The first global principal component analysis on 36 items resulted in a nine factorial solution. Items FKINFO1, FKINFO2, FKMNGT1, RDASUPP and RDADISTR were deleted as they did not meet the criteria set for retaining items after they were factor analyzed. Three items displayed secondary cross loadings, i.e., item FKINFO1 also loaded on the factor representing construct PAIE (indicating that they are interrelated), item FKMNGT1 loaded on the factor representing the construct FSEXPR, and item FKINFO 2 loaded on the factor representing the construct FKMNGT. Item RDASUPP representing the retailers' differential advantage related to their relationship with suppliers was deleted as it loaded on factor FKINFO rather than on any one of the retail differential advantage factors. Factor 9 was comprised of a single item, RDADISTR, representing the retail differential advantage construct, related to retailers' distribution activities. According to the preset criteria established earlier, this item-factor was removed from further consideration.

The subsequent and final global principal component analysis on the remaining 31 items produced eight factors which adequately represented the constructs of the model of IRI. The results of the final principal component analysis on these items, i.e., a varimax rotated factor matrix for the resulting eight measures in the instrument and its characteristics, are presented in Table 10. The results show that, after purification, the eight subscales achieve independent loadings on their expected components. The pattern of the loadings is consistent with the a priori expectations (the model of IRI). The items in each measure display their highest loadings on the same underlying factor, suggesting

**Table 10. Varimax Rotated Factor Matrix For Eight Measures in the Instrument**

ITEMS	PRINCIPAL COMPONENTS								Communalities
	I FSEXPR	II PAIE	III RDA1	IV FKINFO	V FKMNGT	VI DMG	VII FSIZE	VIII RDA2	
FSEXPR 3	.89689								.82289
FSEXPR 5	.87059								.83148
FSEXPR 2	.82763								.76492
FSEXPR 1	.78944								.75535
FSEXPR 6	.76795								.66552
FSEXPR 4	.74104								.64221
PAIE 8		.79895							.70160
PAIE 6		.75593							.71071
PAIE 3		.75115							.66995
PAIE 7		.72911							.68234
PAIE 1		.61241							.66676
RDAIMGE			.86056						.79083
RDAFACIL			.82802						.72503
RDAPROD			.70256						.75956
RDAMERCH			.64385						.59515
RDASERV			.59432						.68140
FKINFO 4				.78888					.80189
FKINFO 5				.72377					.68747
FKINFO 3				.68388					.61072
FKINFO 6				.63650					.68501
FKMNGT 5					.76699				.71580
FKMNGT 4					.75597				.84728
FKMNGT 2					.65819				.71440
FKMNGT 3					.60993				.70293
DMG 2						.87753			.81634
DMG 3						.81314			.73570
DMG 1						.80433			.78127
EMPLOYEE							.95028		.94098
VOLUME							.94464		.93122
RDAQUAL								.85310	.82332
RDADSGN								.85191	.81582
Eigenvalue	8.179	3.37	3.036	2.468	1.905	1.648	1.441	1.027	
% of Variance	26.4	10.9	9.8	8.0	6.1	5.3	4.6	3.3	
Cumulative % Variance	26.4	37.3	47.1	55.0	61.2	66.5	71.1	74.4	

that each measure represents an independent characteristic of an individual construct - factor. The absence of significant (i.e., +/- .40 or above) cross loadings further confirms the independence of each scale. Eigenvalues or the sum of variances of the factor values for each factor are also displayed in Table 10 and range from 8.18 for Factor I, the firm's experience construct, to an eigenvalue of 1.03 for Factor VIII, the construct of retail differential advantage related to the quality and design of merchandise offered in the retail chain (RDA2). The column headed 'communalities' provides the estimates of the variance in each item that is explained by eight factors. The eight factor solution accounts for 74.4 of the variance.

The coefficient alphas for each construct/measure are presented in Table 11. The internal consistency estimates for the seven scales after the deletion of five items in the final purification phase are acceptable. The results show that post-purification reliabilities are quite high and well beyond the 0.70 level set out in this study. Table 11 also shows a comparison of internal consistency reliability estimates for individual scales after the initial purification phase and after the final purification phase. The elimination of the items with cross loadings and other undesirable characteristics in the principal component analysis led to a slight reduction in the corresponding scale's alpha level. While such a reduction would be expected due to the decrease in the number of items remaining in this scales, the magnitude is not large enough to raise concern about the reliability of purified scales. Alpha levels remained unchanged for the constructs RDA 3, DMG, FSEXPR and PAIE. The internal consistency estimates for the remaining constructs, i.e., RDA1, FKINFO, FKMNGT, dropped insignificantly and had values of 0.80, 0.85 and 0.87, respectively.

**Table 11. Comparison of Internal Consistency Reliability Estimates for Multi-item Scales in the Initial and Final Purification Phases**

Construct	Items in the Scale - Initial Purification	Coefficient Alpha Initial Purification	Items in the Scale - Final Purification	Coefficient Alpha Final Purification
RDA 1	3 (RDAIMAGE, RDAFACIL, RDASRVCE)	0.8016	5 (RDAMERCH, RDAPROD, RDAIMAGE, RDAFACIL, RDASRVCE)	0.8000
RDA 2	4 (RDAMERCH, RDAPROD, RDADISTRIB, RDASUPP)	0.7092	eliminated	eliminated
RDA 3	2 (RDADESIGN, RDAQUALITY)	0.8039	2 (RDADESIGN, RDAQUALITY)	0.8039
DMG	3 (DMG1 - DMG3)	0.8335	3 (DMG1 - DMG3)	0.8335
FSEXPR	6 (FSEXPR1- FSEXPR6)	0.9155	6 (FSEXPR1- FSEXPR6)	0.9155
FKINFO	6 (FKINFO1 -FKINFO6)	0.8727	5 ((FKINFO3 -FKINFO6)	0.8525
FKMNGT	5 (FKMNGT1 - FKMNGT5)	0.8791	5 (FKMNGT2 - FKMNGT5)	0.8757
PAIE	5 (PAIE 1, 3, 6, 7,8)	0.8207	5 (PAIE 1, 3, 6, 7,8)	0.8207

The results show that the reliability estimates obtained in different phases of the purification process do not reflect substantial variations in their absolute magnitude. Most of the scales used in this study represent original scales derived from previous academic studies and the information obtained from personal interviews with industry representatives. The observed internal consistency estimates of 0.80 or above for all the scales are encouraging since they are well above the level acceptable for the early stage of development of a construct's measure. An additional issue in the objective evaluation of reliability estimates is the sample size, as sampling error tends to inflate the magnitude of the observed coefficient. Nunnally (1978) suggested that a ratio of subjects to number of items within each scale employed range between 5 : 1 or preferably 10 : 1. If the ratio of items measuring individual construct and number of subjects in the study is below this

level, sampling error might result in artificially higher alpha levels, which might not be replicated in research employing a larger sample size. In this study, the ratio of items within each construct (from two to six items) and the number of observations (73) ranged between 12.2 and 36.5, which was beyond the recommended ratio.

### **Summary of Purification Process and Validity of Measures**

From the results presented in the two sections above, it appeared that the scales developed for the purpose of this study demonstrated satisfactory levels of reliability by possessing the desired properties of internal consistency and unidimensionality. The procedures employed provided support for the reliability of measures; however, validity issues should also be addressed. While reliability considerations focus on measurement distortions due to random errors, validity emphasizes both systematic and random errors, and assesses the degree to which the instrument measures what it intends to measure. As suggested by Churchill (1979), construct validity (referring to the degree to which measures behave as expected in terms of how they relate to other measures) should be carefully evaluated. Two important estimates in construct validation are convergent and discriminant validity. Convergent validity represents the degree to which multiple attempts at measuring the same concepts using different methods are in agreement. Discriminant validity, on the other hand, requires that a measure not correlate highly with other measures from which it is suppose to differ. Support for both types of validity was provided in part in both the scale purification phases described earlier. Global factor analyses on all items in the instrument examined the independence among the scales measuring different constructs. Each item of a construct's measure represents an attempt to measure a construct. When items from different measures are factor analyzed as has

been done in this study, the observed high loadings on one factor by items belonging to the same measure provide evidence of convergent validity. Moreover, their low loadings on all other factors (representing different constructs) attest to discriminant validity.

The procedures employed in evaluating psychometric properties of the measures in this study are, however, not without drawbacks. The purified and validated scales should be, ideally, applied to new data to eliminate errors caused by factors external to the instrument or to reduce the possibility of attributing initial findings to chance. According to Churchill (1979), the construct is more than a measurement artifact when the purified sample of items is submitted to a new sample of objects. Since the purpose of this research was primarily model testing and not scale development, and that collection of new data was not feasible due to cost and time considerations, data collected from the same subjects was used in subsequent analyses. An alternative approach to collecting a new set of data is a split-sample analysis, where the original data is split into two samples, one used for instrument purification purposes and the other one for hypotheses testing. This alternative did not seem feasible at this stage of the research due to inadequate sample size. However, the subjects to item ratio in this study was within the guidelines recommended by Nunnally (1978).

### **Preliminary Analysis**

Before estimating the parameters associated with the hypothesized relationships, some preliminary analyses were performed to evaluate the appropriateness of the data at hand. This analysis include analysis of residuals and diagnostics to detect influential observations. Cook's distance and studentized residual values were used to detect influential observations. The values greater than 1.0 for Cook's distance and greater than

2.0 for studentized residuals were used as threshold values; observations which exceeded both of these were considered potential candidates for designation as outliers. While four cases exceeded the set Cook's distance, only two of these same cases exceeded a value of 2.0 in studentized residuals. These two questionnaires (id numbers 635 and 964) were examined. With the exception of missing values in part II of the questionnaire (questions targeting the retail chain's foreign sourcing experience) in case 964, nothing unusual was detected to contribute to measurement error (e.g., inconsistent responses, or global response to all items). Each of these cases appeared only slightly different from the remaining cases rather than representing substantially out of range observations. Consequently, the two cases were not removed from consideration in subsequent analysis. The decision to retain these observations is also consistent with the suggested treatment of outliers in the literature. Netemeyer and Wasserman (1974) recommended discarding an outlier "only if there is direct evidence that it represents an error in recoding, a miscalculation, a malfunctioning of equipment or a similar type of circumstance" (p.107).

### **Hypothesis Testing**

The key research problem of this study was to investigate the specific antecedents of a retail organization's international involvement, i.e., to test whether there are significant differences between retail store chains with or without current international involvement in terms of the constructs proposed in the model of IRI. To test this theory based model, hypotheses were proposed in Chapter 4. These six hypotheses propose a relationship between the individual constructs in the model (independent variables) and IRI, the dependent variable. Given that the latter was defined as a binary, dichotomous

variable at the retail chain unit of analysis and the independent variables are either interval level data (measured by Likert-type and semantic differential scales) or continuous data (retail chain's size) all six hypotheses were tested via logistic regression. The characteristics of this statistical analytic method and reasons for its selection are discussed first, then hypotheses are stated both conceptually and in a null form. Finally, the results of the regression analysis are presented.

### **Logistic Regression Analysis**

The logistic regression uses a logit model formulation to evaluate the extent to which the independent variable (s) have an impact on the dependent variable which takes a discrete, binary form, and whether that impact is significant. Since the dependent variable, IRI, can only have two values, i.e., 1 for a retail chain which presently has international involvement and 0 for a retail chain without international involvement, the predicted values need to be interpreted as probabilities that the event (IRI in this case) occurs. Since the probabilities are constrained to two values only, so are the residuals. Hence, the major assumption in the linear regression that the distribution of errors or residuals of the dependent variable are normally distributed does not hold, making the least squares method to evaluate parameter estimates inappropriate. Logistic regression analysis uses the logistic distribution functional form, which expresses the probability that the dependent variable equals one as a nonlinear function of the set of independent variables, and is represented with the following equation:

$$P [Y_i=1]= 1 / (1+ e^{-(B_0 + B_i X_i)}) \quad (1)$$

whereby  $P$  represents the probability that the dependent variable  $Y$  for the  $i$ th observation is one,  $B_0$  represents the intercept parameter and the  $B_i X_i$  represents the sum of the products of the existing independent variables ( $X_i$ ) for the  $i$ th observation and their respective regression parameters ( $B_1, B_2, \dots, B_p$ ), or  $B_i X_i = B_1 X_{i1} + B_2 X_{i2} + \dots + B_p X_{ip}$ . Using the odds ratio in favor of  $Y$ , i.e., the probability  $P_i$  when a retail chain does have IRI (IRI=1) or the ratio of probability of IRI to the probability that there is no IRI ( $1 - P_i$ ) in the equation (1), and taking the natural logarithm of this equation, we obtain  $L$  or the log of odds ratio:

$$L_i = \ln (P_i/(1-P_i)) = B_0 + B_i X_i. \quad (2)$$

This equation shows that the log of odds ratio or logit ( $L$ ) is linear in the independent variables  $X$  and in the parameter estimates, but not linear in the original probabilities as is typical in linear regression (Gurajati, 1995). Logistic equation (2) can be rewritten in terms of odds (3) rather than log odds, which is more convenient for the subsequent interpretation of logistic regression coefficients:

$$(P_i/(1-P_i)) = e^{-(B_0 + B_i X_i)} \quad (3)$$

It can be observed from equation (3) that when the  $i$ th independent variable changes by one unit and the other ones remain the same,  $e^{(2.17)}$  raised to the power  $B_i$  is the factor by which the odds change.

As a result of logistic transformation, the dependent variable in logistic regression is no longer constrained to zero and one, and a plot of the logistic regression curve is not a straight line as in linear regression but a sigmoid or S-shaped curve ( DeMaris, 1992).

The logit model represented above uses the method of maximum likelihood for estimation of the parameters in the model, i.e., the coefficients are selected which make our observed results 'most likely'.

In addition to the logit model, alternative statistical methods available when the dependent variable is of binary nature are: log-linear model, discriminant analysis and the probit model. The former is deemed inappropriate, because log-linear probability models focus, as demonstrated by Aldrich and Nelson (1984) "... on the joint probabilities of a set of qualitative variables, while logit examines the conditional probability of a single qualitative variable, given a set of other variables." (p. 82). In addition, the method is beset with problems such as non-normality and heteroscedasticity of residuals, the possibility of the dependent variable lying outside the 0-1 range, lower coefficient of determination values and problems with the interpretation of regression parameters (Gujarati, 1995).

A discriminant analysis or a linear discriminant model would be a feasible alternative method to analyze the research question under investigation; however, the logistic regression model is believed to be more effective as it is more robust in that it requires much more limited assumptions about the distributions of the data (Norusis, 1994, p.37; Hoshmer and Lemeshow, 1989). Furthermore, discriminant analysis is usually more concerned with a correct determination of the endogenous variable and describing the distribution of the independent variables, i.e., the independent variables are treated as "endogenous" variables (Aldrich and Nelson, 1984).

Lastly, the probit model is another possible analytic method to help explain the behavior of a binary dependent variable. The only difference between logit and probit is that the former uses the logistic cumulative distribution function and the probit model uses the normal cumulative distribution function (i.e., the S-shaped cumulative

distribution curve is slightly flatter in the logistic model). As Gujarati (1995) notes, the two methods are essentially quite similar and the choice is typically a matter of convenience and availability of computer programs.

Before examining the hypothesized relationships and presenting the results of the logistic regression, problems with multicollinearity in this or any other regression procedure should be mentioned. Multicollinearity refers to the degree of intercorrelations among independent variables that are assumed to be of equal importance and enter the equation simultaneously, regardless of the method of entry used in the regression. Since a high degree of intercorrelation among the independent variables reflects their common variance with the criterion variable, multicollinearity indicates the degree of redundancy of information provided by predictor variables. The consequence of this phenomenon is highly unstable parameter estimates for the correlated predictors, which may not hold true beyond the cases included in the analysis. The standard errors associated with these parameter estimates increase in size, widen their confidence interval and hence lessen the probability of rejecting the null hypothesis. Accordingly, the researcher's ability to assess the relative impact of a variable suffers. Hence, if researchers suspect multicollinearity in a data set, one of the approaches is to use the factors derived from a principal component analysis as independent variables in the regression analysis. Considering the nature of some of the constructs tested in this study, most of which are perceptual measures and most likely correlated (particularly the two dimensions of the construct firm's knowledge and the construct perceptions of attractiveness of international expansion), the decision was made to use orthogonal factors derived from the final principal analysis procedure (described earlier) as independent variables in logistic regression.

## Hypotheses

The hypothesized relationships between the constructs identified in the model of International Retail Involvement (IRI) and the dependent variable IRI are provided below before the discussion of the analyses and the results.

- H1:** Retail chains with IRI have significantly stronger differential advantages for at least some dimensions of the construct Retail Differential Advantage (RDA) than retail chains without IRI.
- H2:** The greater the retail firm's knowledge of international opportunities and competitors' international moves, the more likely the firm has IRI.
- H3a:** The greater the retail firm's experience in terms of the management's ability to handle international operations the more likely the firm has IRI.
- H3b:** The greater the firm's experience as defined by its foreign sourcing experience, the more likely the firm has IRI.
- H4:** Retail chains with IRI exhibit significantly more favorable perceptions of the attractiveness of international retail expansion than do retail chains without IRI.
- H5:** Retail chains firms with IRI have significantly fewer opportunities for domestic market growth than do retail chains without IRI.
- H6:** The larger the retail chain's size in terms of its annual sales volume and the number of full time employees, the more likely it has IRI.

The orthogonal factors (derived from the global principal component regression with varimax rotation in the final scale purification phase detailed earlier) which represent independent variables (i.e., constructs in the above stated hypotheses) were then regressed on the dependent variable IRI using logistic regression analysis available in the SPSS 7.0 computer program. Hence, the logit model that was formulated modeled international retail involvement as a function of factors representing retail differential

advantage (F3RDA1, F8RDA2), firm's knowledge in terms of its information seeking behavior (F4INFO), firm's experience in terms of its management abilities to handle international expansions (F5MGT), firm's experience (F1EXPR), perceptions of attractiveness of international retail expansion (F2PAIE), retail chain's domestic growth potentials (F6DMG) and retail chain's size (F7SIZE). The logit model can also be presented as following:

$$\text{Log odds (IRI)} = B_0 + B_1 \text{F1EXPR} + B_2 \text{F2PAIE} + B_3 \text{F3RDA1} + B_4 \text{F4INFO} + B_5 \text{F5MGT} + B_6 \text{F6DMG} + B_7 \text{F7SIZE} + B_8 \text{F8RDA2}$$

While the SPSS Logistics Regression procedure has several methods available for model selection, the enter method was used whereby all the independent variables were entered in the regression equation simultaneously. The significance level for the hypothesis testing was set to 0.05 for a null hypothesis to be rejected, and at a 0.10 level for a null hypothesis to be only conditionally rejected. The results of the logistic regression, which contains the estimated coefficients, and related statistics from the regression model predicting international retail involvement of retail chains, are provided in Table 12. First the hypothesis testing part of this output is examined, followed by a discussion of the summary statistics presented on the bottom of Table 12, the goodness of fit of the model and its predictive ability.

### ***Hypothesis 1***

Hypothesis 1 can be only conditionally accepted as seen from Table 12. Two factors representing a retail chain's RDA are F3RDA1 (composed of the retail differential advantages of the depth and breath of a retail chains' merchandise selection, of retail facilities, overall store image and customer service) and F8 RDA2 (represented by a retail differential advantage in the merchandise quality and design) yield parameter estimates of

**Table 12. Results of Logit Analysis Hypotheses Testing**

Variable	Regression Coefficient (B)	Standard Error (S.E.)	Significance Level (p)	Odds Ratio (Exp. B)	Hypothesis
Constant	-1.3488	0.4854	0.0055	1.57	-
F1EXPR	-0.1960	0.4343	0.6517	0.8220	Hypothesis 3a
F2PAIE	0.9763	0.4022	0.0152	2.65	Hypothesis 4
F3RDA1	0.7969	0.4162	0.0555	2.22	Hypothesis 1
F4INFO	1.566	0.4860	0.0013	4.79	Hypothesis 2
F5MNGT	1.5788	0.4472	0.0004	4.85	Hypothesis 3b
F6DMG	-0.4144	0.5215	0.4269	0.6608	Hypothesis 5
F7SIZE	1.3081	0.7553	0.0833	3.7	Hypothesis 6
F8RDA2	0.4521	0.4255	0.2879	1.57	Hypothesis 1
-2Log Likelihood = 43.376					
Model Chi Square = 49.086					
p = 0.0000    df = 8					
% Correctly Predicted = 87.67					

0.7969 and 0.4521, respectively. While the estimates are positive as expected, F8RDA2 yielded a non-significant parameter; the significance level of F3RDA1 is 0.0555. Since we can say at the 10 percent confidence level that F3RDA1 has an impact on a retail chain's IRI, hypothesis 1 is conditionally accepted.

### *Hypothesis 2*

The hypothesis stating that the greater the retail firm's knowledge in terms of its information seeking behavior the more likely the firm has IRI can be accepted at the 0.05 confidence level. The parameter estimate for F4INFO of 1.5660 is positive, with a significance level of 0.0013. Hence, it can be concluded that this factor is a significant predictor of IRI. When interpreting the regression coefficients in logistic regression, the previously stated equation (2) should be recalled as the logistic coefficient is interpreted as the change in the log odds associated with a one-unit change in the independent variables. Consequently, when a retail chain increases the level of its information gathering activities regarding international opportunities and its competitors' international success by one unit, and the values of other independent variables in the model remain the same, the log odds of IRI increase by 1.5560. Since it is easier to interpret the impact of this factor on IRI in terms of odds of IRI (see equation (3) presented earlier) rather than in terms of log odds, we can refer to the value of the odds ratio in Table 12. When a retail chain's information seeking behavior increases by one unit, the odds of its getting involved in international markets increase by a factor of almost 5.

### ***Hypothesis 3a***

The hypothesis stating that the greater the firm's experience in terms of the management's ability to handle international operations the more likely the firm has IRI can be accepted. Table 12 shows that a construct of F5MGMT yielded a regression coefficient of 1.5778 which is significant ( $p=0.0004$ ). This suggests that as a retail chains' management capabilities in terms of hands-on experience, international expertise, general knowledge and formal training in international business increases by one unit, the retail chain is 4.8 (the odds ratio value in Table 12) more likely to get involved in international retailing activities. It can be seen from Table 12 that of all the factors in the model, a retail firm's management capability is the strongest predictor of its involvement in international markets.

### ***Hypothesis 3b***

The hypothesis stating that the greater the firm's experience as defined by its foreign sourcing experience, the more likely it is that the firm has IRI cannot be accepted as the regression coefficient of - 0.1960 is nonsignificant (0.6517). This suggests that international business experience that can be gained through a retail chain's direct buying from foreign suppliers or a retail chain's sourcing international involvement is not transferred to its market-serving form of international involvement, at least for the sample in this study. Some of the reasons for this result, which does not support the researcher's expectations, might lie in the unit of analysis in this study (an individual retail store chain) and that this construct might be retail sector specific. Several of the retail chains in this study are only one of the retail chains within a retail conglomerate operating a number of retail chains under various trade names. Merchandising and foreign sourcing activities, at least for this portion of the sample retailers, might be conducted at the retail

conglomerate level rather than individual retail chain level. Also, gaining experience through international direct sourcing might be more relevant for firms in the apparel and some other specialty formats than for a convenience store or a supermarket.

#### ***Hypothesis 4***

As reflected in Table 12, the hypothesis stating that the firms with IRI exhibit significantly more favorable perceptions of the attractiveness of international retail expansion than do retail chains without IRI is accepted. The regression coefficient for F2PAIE is positive (0.9763) and significant at the 0.05 confidence level ( $p=0.0152$ ). The odds ratio of over 2.6 indicates that as the upper-level management gains (by a single unit) more favorable perceptions regarding international retail expansion in terms of its complexity, strain on the firm's resources, feasibility for future growth of the retail chain and ability to exploit economies of scale through international involvement, the odds of its IRI increase almost 3 times. Given these results, the construct of perceptions of attractiveness of international expansion does contribute significantly to a retailer's involvement in markets other than the home market.

#### ***Hypothesis 5***

The hypothesis predicting that retail chains with IRI have significantly fewer opportunities for domestic market growth cannot be accepted given the results in Table 12. The regression coefficient for F6DMG of - 0.4144 is in the predicted direction; however, its significance is beyond the significance level of 0.10. Thus, limited domestic growth opportunities in the home market cannot be said to drive a retail chain's international involvement. This suggests that (at least for the sample in this study) retailers with current involvement in market-serving retail activities in international

markets might be motivated to expand internationally by factors other than the lack of domestic growth opportunities, as suggested in the literature investigating 'push' and 'pull' factors as motivators in retail internationalization (Treadgold, 1988).

### ***Hypothesis 6***

The last hypothesis stated that the larger the retail firm's size the more likely it is that it has IRI. Given that the regression coefficient of 1.3081 for F7SIZE is significant at the 10 percent level ( $p=0.0833$ ), this hypothesis can only be accepted conditionally. The odds ratio for this construct in Table 12 suggests that it can be claimed with a 10 percent level of confidence that an increase of one unit of a retail chain's size (which is measured by a combination of its annual sales volume and the number of full time employees), the odds that a retail chain will have IRI increase almost by a factor of 4 (Exp. B = 3.6992). While the results do not exhibit strong support for the impact of retail chain's size on its IRI, they might be suggesting that larger firms, which might have a broader coverage in the home market, are more likely to expand internationally. This implication would be consistent with the literature suggesting that a firm must first go through an internationalization process in the domestic market before it enters culturally more demanding international markets.

### **The Significance of the Model**

As presented on the bottom of Table 12, the overall model produced a chi square of 49.086 with eight degrees of freedom. The model is highly significant (at  $p < 0.01$ ), thus the null hypothesis tested by the chi-square that all the parameter estimates for the independent variables (factors, in our case) except the constant are zero, is rejected.

Hence, the model allows us to better predict a retail chain's IRI than we could without the independent variables in the model. The -2Log likelihood (-2LL) for the model that includes the independent variables and the intercept (constant) is 43.376. This term, which will be denoted by  $D_M$  in a later discussion, essentially provides information similar to chi-square, except that it indicates how poorly the model fits with all the variables in the equation (i.e., it is analogous to the error sum of squares in linear regression analysis; it is not supposed to be significant).

In order to estimate the power of the model produced by logistic regression, measures of multiple association between the independent variables and the dependent variable are needed (e.g. something comparable to the coefficient of determination, R-square, in the linear regression model). Although the use of R-square as it applies to logistics analysis has received little attention in the literature, a few comparable measures are available. However, these are not readily available computations in the SPSS program and are hence computed by hand. Hoshmer and Lemeshow (1989, p.148) and DeMaris (1992) present the equivalent forms of logistic R-square ( $R_L^2$ ), calculated based on the values of chi-square, and -2 Log likelihood (which are obtained from the SPSS logistic regression output) using the following formula:  $R_L^2 = \text{chi-square} / (\text{chi-square} + D_M)$ . The  $R_L^2$  value obtained indicates a proportional reduction in chi-square or a proportional reduction in the absolute value of the log-likelihood measure, and indicates how much the inclusion of the independent variables in the model reduces the badness-of-fit. The value of  $R_L^2$  can range between 0 (when the independent variables are useless in predicting the dependent variable) and 1 (when the model predicts the dependent variable with a perfect fit). For the model produced in this study, the  $R_L^2$  calculated based on the above formula is 0.53, indicating medium to strong association between variable IRI and independent variables in the model (Menart, 1995, p.22).

An analogous measure to the adjusted R-square in the linear regression has also been proposed in the literature, i.e., adjusted for the number of parameters in the model. The following formula for the adjusted R-square in the logistic regression ( $R_{LA}^2$ ) has been proposed:  $R_{LA}^2 = (\text{chi-square} - 2k) / (\text{chi-square} + D_M)$ , whereby  $k$  denotes the number of independent variables (Menart, 1995). For the model produced in this study, the value of  $R_{LA}^2$  obtained is 0.336, suggesting moderate association between the variable IRI and the independent variables in the model.

Another measure of association was proposed by Aldrich and Nelson (1984) in their discussion of logit and probit models. They proposed the pseudo-  $R_L^2$ , which can be calculated as follows:  $R_L^2 = \text{chi-square} / (\text{chi-square} + N)$ , whereby  $N$  denotes the number of cases. Although this  $R_L^2$  was also computed ( $R_L^2 = 0.40$ ) for the model in this study, the disadvantage of this measure is that it can never reach 1, even for a perfect fit with the data.

Finally, the  $R^2$  using linear multiple regression was computed using the SPSS program. As suggested by Menart (1995) the predicted values for IRI were saved when running the regular logistic regression, and were then used as dependent variables while running a regular linear regression using orthogonal factors as independent variables (just as in the logistic regression). The  $R^2$  obtained was 0.903 and the adjusted  $R^2$  was 0.891, suggesting that independent variables in the model could explain about 90 percent of the variation in the dependent variable.

Given that the concern of this study is that of theory testing as it applies to the retail environment, evaluating the goodness of fit of the model produced as discussed above is of primary emphasis. However, the model's predictive ability should also be discussed. In order to assess the accuracy of prediction of the membership among the two types of retail chains, i.e., those with IRI and those without IRI, based on the constructs

identified in the model (i.e., independent variables), classification tables produced in the SPSS program are used. The results of the predictive accuracy are presented in Table 13, classifying correctly and incorrectly predicted cases in this study.

As shown in Table 13, the number of cases correctly classified as not having IRI is 46, whereas there are 18 correctly classified cases for retail chains with IRI. Overall, a total of almost 88 percent of cases would be correctly classified given the variables in the model, although there are different error rates for the two groups. Almost 94 percent of the firms without IRI are correctly classified; as reflected in the classification table, only three cases were misclassified. However, for the retail chains with IRI, the accuracy of prediction is only 75 percent, as six out of 24 cases were misclassified. Based on these results it can be concluded that the independent variables in the model allow us to classify retail chains with and without IRI with quite a high degree of accuracy. As compared to the results of goodness of fit of the model presented earlier, the accuracy of prediction appears to be even higher than the ability of the model to predict the probability of IRI.

**Table 13. Classification Table of IRI**

		Predicted No	Predicted Yes	Percent Correct
		without IRI	with IRI	
Observed No	without IRI	46	3	93.88
Observed Yes	with IRI	6	18	75.00
			Overall Percent Correct	87.67

## Chapter Summary

This chapter has described the analyses of data and evaluation of the hypotheses developed in Chapter 4. The test of these hypotheses provides support for the conceptual model developed to guide this study. Logistic regression produced a significant model with adequate goodness of fit as well as the model's ability to predict the probability of IRI based on the constructs retained in the model.

However, not all the hypotheses proposed were confirmed in this study. The findings indicate that the strongest predictors of international retail involvement are the firm's experience in terms of its management abilities to handle international expansion, the firm's knowledge as indicated by its information gathering activities, and perceptions of attractiveness of international retail expansion. Only a partial support was obtained for the predictive ability of the retail differential advantage construct and for the impact of the retail chain's size on IRI. Neither the retail chain's experience as indicated by its foreign sourcing experience nor its domestic growth opportunities evolved as significant predictors of IRI in this study. These results provide a groundwork for future investigations. A summary of the study, its contributions, limitations and potential avenues for future research are presented in the next chapter.

## **CHAPTER 7**

### **CONCLUSIONS AND FUTURE RESEARCH**

This chapter provides a summary and a discussion of the findings in this research. The implications of the results for the theory and measurement as well as for retail practitioners are outlined. In view of the issues left unresolved in this study, suggestions for future research concerning international retail involvement are detailed in the concluding section.

#### **Summary of the Study**

The purpose of this study was to apply the existing theoretical and empirical knowledge in the field of international business involvement to the study of internationalization of firms in the retail industry, by developing and empirically testing a conceptual model of international retail involvement (IRI). The main thrust of this empirical cross-sectional study was to investigate whether there are significant differences between retail store chains with and without current international involvement in terms of the constructs proposed in the model. The theoretical basis adopted in the model development stage of this research is grounded in the internationalization process (IP) perspective, which attempts to explain determinants of international involvement and the nature of such involvement. Three major streams of conceptual and empirical research embedded within the IP theoretical perspective were identified in the development of a conceptual model guiding the present study: a) the attitudinal approach (Perlmutter, 1969; Wind et al., 1973), b) the Nordic model of firm internationalization (Johanson and Vahle, 1977; 1990) and c) the export stage schemes (Bilkey, 1978;

Cavusgil, 1980; 1984; Czinkota, 1982). Common to all three research streams is the emphasis on internal organizational and managerial characteristics. The underlying assumptions are that international activities involve high risk, that international involvement is a sequential process, and that consequently international decisions are made incrementally. The key determinants of international business involvement in these three research streams are associated with the firm's differential advantages, its international experience, its resources, and the perceptions, goals and expectations of its management. In view of the relative newness of internationalization for retail firms and markets, the IP perspective appears to offer a suitable theoretical basis for explaining IRI. Nonetheless, alternative theoretical perspectives within a broader context of international business involvement, e.g., the theory of internalization (Buckley and Carson, 1976) and the eclectic paradigm (Dunning, 1988), were also considered in specifying the constructs proposed.

The proposed conceptual model of IRI captures the key explanatory variables suggested by each of these paradigms, along with some additional ones considered to be important based on existing empirical evidence in the retail literature. The explanatory constructs believed to represent major antecedents to IRI of retail chains in the proposed model are: retail differential advantage, the firm's knowledge, the firm's expertise, perceptions of attractiveness of international retail expansion, domestic market growth potentials and the retail chain's size. International retail involvement, the criterion variable in the model, was defined as the market-serving involvement in retail activities at the strategic business unit level in more than one national environment. This variable was operationalized dichotomously. A retail firm was considered to have international retail involvement if it operated at least one retail store in any country outside the domestic

market, regardless of the degree of ownership of international activities or the entry method used in international markets.

In view of the lack of theory-based empirical research concerning the internationalization of retail firms, this study represents one of the first attempts to surface and explain retail firm specific antecedents of international involvement. A further contribution of the proposed model of IRI is that the constructs identified in the model are unambiguously defined by building upon and to some extent modifying definitions from previous empirical studies within the broader scope of international business involvement. Furthermore, a review of the literature was supplemented by exploratory qualitative research conducted prior to the main data collection. The goal of this field research, which involved two in-depth interviews conducted with executives of retail organizations with and without current international involvement, was to further discover relevant determinants of IRI not yet identified from the literature, and to assess the measurements of the constructs from the retail management perspective.

This study also presents quantitative empirical evidence and explanations of the observable antecedents of IRI based on a cross-sectional study involving a mail survey as a main data collection method. While the primary data was collected from top executives of retail firms, the unit of analysis in this study was represented by an individual retail store chain or a strategic business unit of a large retail conglomerate rather than an individual manager. The instrument pretest included three steps: a) a content validation of measurements for each construct and the questionnaire as a whole by those familiar with the research topic, b) a survey evaluation and administration during personal interviews with upper-level management of firms with and without current IRI, and c) administration of the instrument to a small convenience sample of executives considered similar to those participating in the actual study. Using a criterion-based method for

identification of participating retail chains the mailing procedures followed guidelines provided by Dillman's Total Design Method. Usable survey instruments were obtained from the top management of 73 different retail chains. Five retail chains provided responses from both informants selected to participate in the study.

The data analysis stage in this study consisted of three analyses employed to describe the sample, to purify the measures, and to test the model. The first step involved descriptive analyses of the participating retail store chains and the informants. Comparison of descriptive parameters of retail chains with and without international retail involvement indicated that retailers in the sample with international involvement were significantly different on all measures but the retail chain's age. That is, retail chains with international involvement in our sample were significantly larger in terms of sales volume, employment, number of retail stores in the chain, and geographic coverage. No specific pattern of differences in store format or retail sector were discerned. The degree of retail chains' international involvement varied widely on all measures, i.e., the number of foreign countries, the number of stores in international markets and the number of years a chain has been involved in international retailing.

Judging the non-response bias by comparing descriptive characteristics of retail chains responding to the first and the second questionnaire mailing, significant differences were established on the employment of retail chains, but on none of the other descriptive parameters. The analysis of informant characteristics revealed that managers participating in this study possessed the desired qualities to assume the role of key informants. Judging inter-rater reliability of informant reports on the basis of double questionnaires received from five retail chains, a high inter-rater agreement was established.

The second step in the data analysis involved statistical analytic methods used to evaluate psychometric properties of the scales, and analyses applied to data for preparation in the hypotheses testing stage. This stage consisted of an iterative process using principal component analyses on individual scales and on all the items in the survey, and alpha coefficient estimates along with specific criteria for eliminating items without desirable psychometric properties. The results of these analyses revealed that the scales developed for the purpose of this study demonstrated satisfactory levels of reliability by possessing the desired properties of internal consistency and unidimensionality.

The final, third stage in the analysis procedure was undertaken to test the conceptual model of IRI. The six substantive hypotheses identified proposed a relationship between the individual constructs in the model (independent variables) and IRI, the dependent variable. Given that the latter was defined as a binary, dichotomous variable at the retail chain unit of analysis and the independent variables were interval and continuous data, all six hypotheses were tested via a logistic regression procedure. Having used orthogonal factors from the final principal analysis procedure as independent variables in logistic regression (due to multicollinearity considerations), the logit model obtained was highly significant with a good overall predictive ability. Also, the measures used to evaluate the power of the model indicated medium to strong association between IRI and the independent variables. These results lead to the conclusion that the model allows for a better prediction of a retail chain's IRI with significant independent variables in the model than without the them. The resulting parameter estimates and the significance levels of individual constructs in the model lead to a full or partial acceptance of five hypotheses; the two hypotheses pertaining to the role

of firm's experience as measured by a retail chain's foreign sourcing experience and the domestic market growth opportunities in the IRI were rejected.

In general, the results support the relevance of most of the explanatory variables in the model suggested by the internationalization process theoretical perspective. The overall pattern of findings highlights a pervasive influence of a firm's management capabilities, the firm's information-seeking behavior and overall perceptions of what international expansion could or could not do for the firm. These three constructs have firm support in the three theoretical research streams outlined in Chapter 3 as the Nordic model, the attitudinal approach and the export stages models. In view of these findings, the implications and contributions of this study are discussed below.

### **Implications and Contributions**

The overall pattern of the results obtained in this study has important implications for academicians, including conceptual and measurement contributions, as well as for retail practitioners. The implication of the study for each of these areas are described in this section.

#### **Implications of the Study for Academicians**

In spite of recent advances in trying to explain the internationalization of firms in the retail industry through the conceptual application of existing international business theories (Dawson, 1994; Simpson and Thorpe, 1995, Pellegrini, 1991; 1994), very few empirical research studies using primary data are available to confirm or dispute the use of the existing frameworks in retail internationalization. Consequently, an absence of

useful frameworks for understanding and explaining international retail involvement has been noted in the literature (Akehurst and Alexander, 1995a; 1995b; Dawson, 1995; Whitehead, 1992). The overall purpose of the model of IRI developed in this study and the subsequent empirical test of the proposed hypotheses was to provide a greater understanding and explanation of the internal firm and industry specific antecedents of international retail involvement. In addition, the contributions of the proposed model are in that it integrates previous theoretical and empirical knowledge in international business, yet, the identified components of the model are adapted to the specifics of the retail industry and are considered to have relevance in explaining the international activity of retail firms.

Hence, this study brings a much needed theoretical and empirical rigor to the literature on retail internationalization, which has been primarily atheoretical and anecdotal. While qualitative and descriptive analyses of individual retail firms with notable successes in international markets can prove helpful in understanding the process, Akehurst and Alexander (1995a) caution that such studies might have limited application within a wider theoretical framework trying to understand and explain this phenomenon. These authors also emphasized a need for more normative and quantitative judgment.

The findings of this study provide support for integrating constructs from the existing theoretical work within the broader scope of firm internationalization in investigating determinants of IRI. While the results do not suggest that any one of the theoretical perspectives considered in construct specification of the model of IRI, i.e., the three research streams within the internationalization process perspective, eclectic paradigm and internationalization theory, would be superior to another, they provide initial empirical evidence for the value of these theoretical perspectives in examining the international involvement of retail firms.

One of the implications emerging from the integration and extension of the theoretical perspectives employed in this study is the strength of two of the constructs in predicting international retail involvement of retail chains: the management ability to handle international expansion which represented one of the two dimensions in the construct the firm's experience, and the construct the firm's knowledge as indicated by a firm's information gathering activities in regards to international retailing opportunities and in regards to the firm's competitors performance in international markets. These findings affirm Johanson and Vahle's (1990) assertion regarding the role of general and experiential knowledge which affect commitment decision and current business activities. Also, the role of the quality of management and information gathering activities in the initiation stage of international export involvement has been emphasized in the export stages schemes. These two antecedents of IRI were also considered in the internalization theory (i.e., the firm will internalize the activities in which it has knowledge or skill advantages over its competitors) and in the eclectic paradigm, where the ownership-specific advantage of a firm can be represented by the firm's knowledge and experience. The construct perceived attractiveness of international retail expansion was also a powerful predictor of IRI of retail chains in this study, which attests to the importance of top management perceptions and attitudes in international involvement, reflected in the attitudinal and export stages approaches in explaining international involvement.

In the model derived through logistic regression analysis, only partial support was obtained for the predictive ability of the retail differential advantage construct and for the impact of the retail firm's size on IRI. Both of these two constructs were significant at the 10 percent significance levels. The role of retailer's size in initiation of international expansion has thus far been a controversial issue not only in the retail literature but also in the literature on broader international business involvement. Comparing descriptive

parameters of the sample of retail chains with and without IRI in this study, the sample of international retail chains was larger than the sample without international involvement in terms of the sales volume, employment, number of retail stores in the chain and geographic coverage. However, combined with other antecedents of IRI in the model, size proved to be only marginally significant.

A related theoretical implication from the findings in this study is that the key antecedent component of international involvement suggested by all the theories and specified as retail specific advantage in this study could not be confirmed with confidence. This relatively weak effect of the retail differential advantage construct, which was composed of the retail chain's competitive advantage in the domestic market in terms of the depth and breath of the retailer's merchandise, retail store image, store facilities and customer service, was contrary to the researcher's expectations. On the other hand, given the broad composition of this factor, this was not too surprising. Future studies will have to address the relative impact of individual retail specific advantages in IRI in order to draw firmer conclusions in regards to which of the components of the retail mix factors are more prone to internationalization than others (assuming that international retailers enter foreign markets with proven retail concepts in the home markets).

Contrary to expectations, the limited domestic growth opportunities and firm's experience as defined by a retail chain's foreign sourcing experience did not emerge as determinants of IRI in this study. While none of these constructs had strong support within the theoretical literature in international business, previous analyses of retail internationalization have referred to these factors in explanation of retailers' motives for initiating international involvement. Explanations offered earlier in regards to the insignificance of the foreign sourcing experience are the unit of analysis in this study and

the fact that the foreign sourcing experience as a measure of a firm experience might be sector and format specific. Several of the retail chains in the sample in this study were subsidiaries of retail conglomerates operating a number of retail chains under various trade names. Merchandising and foreign sourcing activities, at least for this portion of the sample retailers, is likely conducted at the retail conglomerate rather than individual retail chain level. Also, gaining experience through international direct sourcing might be more relevant for firms in the apparel and other specialty formats than for a convenience store or a supermarket.

The inability of the domestic market growth opportunities construct to predict IRI implies that 'pull' rather than 'push' factors might be motivating retailers to internationalize. While major discussions and interpretations of key motivators in retail internationalization have been proposed in the literature (Alexander, 1995; McGoldrick and Davis, 1995; Treadgold, 1988), the evidence of which ones are more prominent than others remains inconclusive. For the sample of retailers in this study, international retailers appear to be motivated to expand internationally by factors other than the lack of domestic growth opportunities.

Considering that measures of both of these two insignificant constructs in the model of IRI exhibited overall desirable properties of the single multi-items scales by which they were measured (alphas of 0.9155 and 0.8335), their weak effect could also be attributed to: a) the lack of convergent validity of the measures (i.e., should be measured using alternative measurement scales); b) the absence of relationship between these two predictors and the endogenous variable in the sample and/or the population of interest; c) the misspecification of their role in the model.

Another important implication of the theory-based model developed in this study is that it is general enough to allow researchers to extend and modify it to include

additional measures in future retail internationalization theory building efforts.

International retail discipline can benefit from extension of the model developed here by relating the antecedents of IRI to an international retail chain's strategic approaches in international markets. This point will be detailed more closely in the section suggesting future research avenues.

In addition, this study offers a few additional implications related to the measurement and methodological issues in the investigation of the international retail involvement of firms. Due to the absence of quantitative studies in the internationalization of retail firms, no attempt was made in earlier studies to establish valid and reliable measures of the constructs of interest. This study offers an examination of IRI by identifying, measuring and empirically supporting the antecedents proposed. The research design utilized both modifications of existing measures and measures specifically developed for the purpose of this study in order to better capture the idiosyncrasies of the retail industry and its international involvement. In this way, this study overcomes some of the conceptual and measurement inconsistencies encountered in earlier literature. Consequently, these findings should enhance future attempts to examine and measure international retail involvement decisions.

### **Implications for Retail Practitioners**

If the statement made by Grabowsky (1989) in discussing the global retail revolution, that "future retailers will be divided into two groups: the successful global thinkers who embrace new ideas and methods, and rapidly fading narrow-minded managers who fight change" (p.1) holds true, then the findings of this study could offer several important and possibly useful implications for international retail practice. These

would be of particular interest to retail management in charge of the strategic development of retail firms.

The study findings should prove important to retail executives facing the difficult task of choosing future growth strategies for a retail chain and potentially making decisions whether or not to consider international retailing. The results of the model testing strongly indicate that an evaluation of management capabilities in handling international expansion ought to be first and foremost. An assessment of the abilities of existing or possibly new human resource potential is needed. A second priority prior to considering internationalization decisions is obtaining adequate information regarding existing opportunities in international markets from professional consultants, via in-house research and/or from published sources, industry contacts and personal contacts within the industry. Also, the findings make it apparent that in considering international expansion, management needs to consider how attractive the international retail expansion could prove to be in relation to the specific retail establishment. Unless the management decision-making team has favorable views in regards to aspects that could represent a barrier to establishing international operations, such as the impact of internationalization on the retail chain's resources, the complexity of transferring store operations into different cultures across borders, and returns associated with the possibility of exploiting economies of scale, it is unlikely that a decision for growth in markets other than the home market will be made. Another serious consideration prior to taking a retail chain international is consideration of the chain's retail specific advantages. These findings indicate that the competitiveness of the overall retail store concept should be evaluated, in particular retail mix aspects related to the merchandise, store image, retail facilities and overall store image.

The fact that a lack of domestic growth opportunities is not necessarily a prerequisite in international retail expansion further suggests the overriding importance of internal organizational characteristics such as those mentioned above. These are, at least to some extent, under the control of the decision makers, suggesting that if a retail chain satisfies most of the preconditions for international expansion, the few lacking aspects or characteristics might be adjusted in such a way that international retail involvement could become a more feasible alternative.

While the pervasive importance of the firm's experience as indicated by management capabilities, information gathering activities and favorable views of expansion beyond domestic market as it relates to the specifics of a particular retail chain might not come as a surprise to many practicing international executives, those in the early stages of decision making regarding future growth opportunities of a retail firm might want to carefully consider those factors.

If, indeed, management experience and the lack of adequate information are the most crucial inhibitors to international retail involvement, the findings of this study could be used by retail consulting or international market research agencies providing assistance to potential future international retailers. These institutions could use the model of IRI in its present or modified form to develop a profile of retailers with high IRI potential, and to identify and broaden their clientele base. Furthermore, these results also suggest the direction these or other institutions offering international expansion assistance should take in designing their assistance programs, such as an emphasis placed upon international business courses or on how to identify significant opportunities in markets beyond domestic borders.

Overall, the findings and implications of this study are very encouraging, and not only strengthen what has been previously known in relation to the international business involvement, but also provide additional insights into complex and increasingly important decisions made by a growing number of retail firms. If the pursuit of global business operations will indeed represent the most prominent trend as the retail industry enters the new millennium, as suggested by retail analysts, then the findings of empirical studies such as this one will be increasingly important both for retail practitioners and consultants who need to make rational choices and for the academic community attempting to explain international retail phenomena. In order to generalize the results obtained in this research, further confirmatory studies are needed. Consequently, the results derived in this study cannot be interpreted without considering potential limitations of this study. These are discussed in the following section.

### **Limitations**

As is typical in most research exploring relatively new and complex issues, the findings of this study and the interpretation thereof should be considered in the context of the limitations and simplifying assumptions inherent in the study. When these assumptions are violated, they might limit the internal and external validity of the study. These will be discussed in terms of conceptual and methodological limitations.

#### **Conceptual Limitations**

While the model developed in this study identifies facilitators and inhibitors as they relate to internal firm characteristics in IRI, the model does not consider potentially

more complex causal relationships among explanatory variables. Given the primacy of this research as it applies the retail industry, this simplified approach might have been warranted. However, future studies should not presume the independence of the explanatory variables.

Furthermore, this study's focus was strictly on what determines that some retail firms initiate international expansion as a growth strategy when others do not. While the assumption was made that international expansion has, at least long term, a positive effect on a firm's performance and growth, nothing can be inferred from the findings of this study in relation to the determinants of IRI on retail chains' success in international markets. However, this assumption is to some extent warranted for the sample of international retailers in this study as 22 out of 24 retail chains indicated that they plan to further increase the extent of their international involvement within the next three to five years. Only two international chains indicated that they plan to keep the same level of international involvement in the future, and none considered a cutback in international involvement.

An additional conceptual consideration involves the omission of other potentially important explanatory variables in the model. Although the integration of key variables suggested by the previous empirical and theoretical work on this topic made the constructs in the model relevant, at least two additional variables were omitted from the model. One relates to an evaluation of external environmental factors, the other to the role of the retail firm's financial considerations.

With the exception of domestic growth opportunities, the model does not consider the role of other external environmental characteristics within which retail firms operate domestically and internationally. Environmental variables as they relate to the internationalization of direct marketers were previously studied within a framework

proposed by Dwyer and Welsh (1985), and the importance of each of these factors (i.e., competition, government regulation, consumer demand, cultural environment, resource availability and technology) was assessed in terms of their impact in the domestic as well as international markets (Morganosky, 1993). Given that the main objective was to isolate internal firm and retail specific differences between currently active retail internationalists and those which limit their operations to the home markets, this omission is somewhat justified.

With respect to the role of financial considerations, international retail involvement is expected to have some cost requirements. The availability of such resources was not explicitly incorporated into the model and measured in this study, in part because of the sensitive nature of such information, which might be considered proprietary to retail firms. To some extent, financial aspects were measured by the size of a retail chain; however, this information says nothing about the actual availability of such resources for future growth considerations. All theories considered in the development of the model of IRI, particularly the theory of internalization, address cost considerations, expecting larger firms to be in a better financial position to pursue international ventures. Implicitly, however, the perceptions of costs associated with international expansion and the impact of IRI on the retail firm's resources were evaluated within the construct perceptions of attractiveness of international expansion. As the findings of Chen and Sternquist's (1995) study of differences between international and domestic Japanese retailers suggested, international retailers were not only larger size companies, but also possessed more assets, liabilities, had larger store facilities domestically and higher bank loans. These results warrant the inclusion of financial considerations in future examinations of antecedents of IRI, particularly if such information is available from secondary sources (which was not the case for the sample in this study).

## **Methodological Limitations**

One of the most pressing limitations as far as generalizability of the findings of this study is related to the relatively small sample size. However, considering the presently small population of international retailers operating in the U.S., the reasonably good response rate achieved, and the "eliteness" of the group of participating informants (top level management) and their respective retail chains, the sample size limitations might not be profound.

Another area of potential concern could be the effects of measurement error since the statistical methods employed to estimate the model parameters only consider the error associated with model specification. Thus, random and systematic sources of measurement error could produce biased results in that such errors could affect the significance of the parameter estimates obtained. Although considerable care was exercised in evaluating the properties of measurement scales used in this study, the procedures employed are not without drawbacks. First, every construct was measured by a single multi-item scale only, and secondly, the purified data should ideally be applied to new data to eliminate errors caused by factors external to the instrument and to reduce the possibility of attributing findings to chance (Churchill, 1979). However, considering the primacy of this research and the fact that the primary goal was model testing rather than the development of new measurements, and the strength of the parameter estimates obtained, the explanatory power of the model is unlikely to be considerably reduced.

The final issue in this discussion of methodological limitation is that of model validation. Due to the limited size of the sample in this study, model estimation and prediction are not considered separately. A rigorous cross-validation of the model, possibly involving a new sample of retail firms, would be necessary to gain stronger

confidence in the findings obtained. Accordingly, the results of this study should be considered tentative until they are replicated in future research involving firms in the same industry.

Despite these and possibly other unspecified limitations, this study is believed to have made a valuable contribution to our understanding and partial explanation of the international involvement of retail firms. Particularly in view of the paucity of quantitative empirical studies involving retail internationalization and the complexity of the retail internationalization phenomenon, the findings of this study are believed to enhance our understanding of this process.

### **Future Research Directions**

This study represents a stepping stone in enhancing the knowledge base on retail internationalization by combining previous theoretical foundations in international business literature with the interpretation, integration and extension of the existing knowledge on the internationalization of firms in the retail industry. However, the findings of this research, their implications and limitations suggest the need for further research on this topic. This concluding section details directions for future research.

One of the first priorities of a future research agenda is to replicate and confirm the results obtained in this study on a larger sample size of retail chains with and without international involvement. Considering the rather good results obtained with the measurement scales developed in this research, future research could use the same operationalizations of the constructs in the model to make the results comparable across studies, in addition to adding new measurement scales.

One of the most fruitful avenues for future research would be to further explore the role of the specific components of the retail differential advantage construct. Due to limitations of this research, a more specific explanation of which specific operational characteristics of the retail chain, i.e., retail mix, determine the strategic decision to initiate international retail expansion was not possible. Further examination of these factors would not only contribute to future theory building efforts in retail internationalization, but could also prove useful for practitioners in their strategic decision-making.

Similarly, the role of the retail firm size needs to be re-examined in future studies of retail internationalization. An additional extension of this explanatory variable is warranted in that analyses could involve an investigation of its potential contributory or contingent effect on the relationship between the antecedents and IRI. Moreover, other descriptive characteristics such as the impact of store format and retail sector on IRI, and the potential moderating effect thereof ought to be examined. Also, the role of the retailer's operating format and retail sector, i.e., merchandise focus, in international retail involvement has not yet been subjected to systematic analysis. Vague indications as to the impact of these factors exist from descriptive research essays (Treadgold, 1988; Salmon and Tordjman, 1989; Burt, 1995).

Two of the hypothesized relationships, i.e., the role of domestic market growth opportunities and the firm's experience as indicated by the retailer's foreign sourcing experience were not supported in this research, and thus represent an important avenue for future investigations. While the role of foreign sourcing experience might be store format and sector specific, the only 'environmental' factor considered in the model of IRI ought to be further examined. Given the importance of understanding the internal and external motivational factors which drive one retail firm to serve international markets

and not the other one, these counterintuitive findings warrant further verification. While the results of this study confirm the findings of Williams (1991) in his examination of UK international retailers in that the motivational factors to expand retail operations internationally go beyond a simplified 'push' and 'pull' dichotomy, further research investigating the role of additional environmental factors driving international retail involvement is needed.

Although the model obtained in this research had relatively good predictive power, a natural extension of this research is to expand the scope of explanatory variables. As suggested earlier, the model could include environmental factors within the framework suggested by Dwyer and Welsh which have been previously considered in the investigation of international direct marketers (Morganosky, 1993). A further extension of the model discussed earlier in this chapter could also be the inclusion of the retail firm's financial performance factors. Despite the fact that such data might be difficult to obtain to its sensitive nature, an extension of the work by Chen and Sternquist (1995) could further enhance our understanding of the antecedents of IRI.

Another approach to further examine the antecedents of IRI as proposed in the existing model would be to consider a hierarchical ordering among explanatory variables, the influences among the model constructs, and direct, indirect and interactive effects of the existing and additional explanatory and moderating variables. Given the objectives in this study, the criterion variable in this research has been defined dichotomously. Future studies could focus on international retail chains only, and investigate the effects of the antecedents on the degree of IRI, which can be measured by various parameters, including the number of foreign countries, number of stores in international markets, the length of involvement in international retailing and even the nature of such involvement

in terms of the entry strategies used (e.g., company owned stores vs. joint ventures or franchising).

Once the determinants of IRI are clearly understood, the next logical step would be to investigate how the constructs in this model relate to retail firms' strategic decisions in international markets. Once the retail firm makes a decision to internationalize its operations, efforts are directed toward identifying the country market(s) to enter, the appropriate mode of operation in that country, and operational strategic decisions regarding retail management in a foreign market. The theoretical paradigms utilized in this research, particularly the Nordic model and the eclectic paradigm, can provide a useful theoretical basis for such empirical studies, as these theories not only attempt to provide an understanding and explanation as to what determines the international involvement of firms (as was the focus of this research), but also speculate on the nature of international involvement. Based on the findings of this research, a foundation has been laid for investigation of the relationships between factors internal (and external) to the retail firm and its strategic decisions in international markets.

In conclusion, as this foregoing discussion suggests, much future theoretical and empirical research remains to be done on the topic of retail internationalization. It is hoped, however, that this research provided an initial step toward a better understanding of this complex and increasingly important phenomenon.

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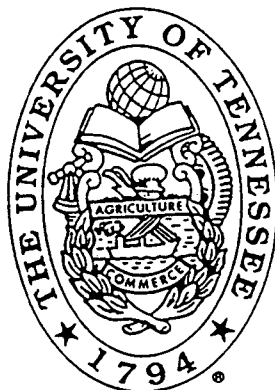
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## **APPENDICES**

**APPENDIX A**  
**MAIL SURVEY INSTRUMENT**

# SURVEY OF RETAIL CHAIN COMPETITIVENESS AND POTENTIALS FOR INTERNATIONAL EXPANSION



The University of Tennessee  
Retailing and Consumer Sciences  
230 Jessie Harris Building  
Knoxville, TN 37996-1900

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## SURVEY GUIDELINES

This survey contains questions concerning your opinions of the competitiveness of one particular retail chain. In the latter part of the survey we seek your perceptions about how the management of your chain views international retail expansion. Even though international expansion *might not* be a viable venue for growth of your chain at this time, *please do respond to all* the questions. This will enable us to make comparisons and evaluate long-term potentials for future growth of U.S. retail chains.

Your retail business may be part of a larger retail corporation which operates a number of retail establishments under different store names. We ask you to respond to the questions in this survey in reference to *a SINGLE retail store chain and NOT the entire corporation*. We realize, however, that you may need to attribute some activities to the corporate rather than individual retail chain level. Please respond to the questions in relation to *the store chain specified in the cover letter address label*. If no retail store chain is specified, please refer to *a retail chain you feel most knowledgeable about*.

As noted in the cover letter, rest assured that all the information will be kept *strictly confidential*. We are interested in the aggregate data only. In *no instance* will firms or individuals be identified.

Should you like *to comment* on any question or qualify your answers please feel free to use the space in the margins or the space provided at the end of the questionnaire.

**PART I: COMPARATIVE ADVANTAGES OF A STORE CHAIN'S RETAIL MIX AND FUTURE GROWTH OPPORTUNITIES**

In this part we ask you to rate various operational aspects of a retail chain as compared to the competition, and to evaluate future growth prospects of this retail chain in the United States.

1. For each of the following items, please *circle* the number which, based on your opinion, best describes the level of *this retail chain's advantage relative to major competitors* (from 1=Low Advantage to 7=High Advantage).

	LOW ADVANTAGE			MODERATE			HIGH ADVANTAGE
A. Number of different product lines	1	2	3	4	5	6	7
B. Merchandise selection within a product line	1	2	3	4	5	6	7
C. Merchandise Price	1	2	3	4	5	6	7
D. Merchandise Design	1	2	3	4	5	6	7
E. Merchandise Quality	1	2	3	4	5	6	7
F. Private Label Program	1	2	3	4	5	6	7
G. Store Design - Retail Facilities	1	2	3	4	5	6	7
H. Overall Store Image	1	2	3	4	5	6	7
I. Customer Service	1	2	3	4	5	6	7
J. Retail Technology	1	2	3	4	5	6	7
K. Uniqueness of Retail Concept	1	2	3	4	5	6	7
L. Retail Management	1	2	3	4	5	6	7
M. Promotional Techniques	1	2	3	4	5	6	7
N. Distribution	1	2	3	4	5	6	7
O. Relationship with Suppliers	1	2	3	4	5	6	7
P. Other Unique Advantage(s) you wish to mention:							
_____	1	2	3	4	5	6	7
_____	1	2	3	4	5	6	7

2. Please answer by placing an "X" in the space that best describes your views regarding the future *growth prospects* and *characteristics* of your retail chain in your domestic market.

- A. Short-term (3 year) market growth rate      LOW : \_\_: \_\_: \_\_: \_\_: \_\_: \_\_: \_\_: HIGH
- B. Long-term (10 year) market growth rate      LOW : \_\_: \_\_: \_\_: \_\_: \_\_: \_\_: \_\_: HIGH
- C. Prospects for future profits                      LOW : \_\_: \_\_: \_\_: \_\_: \_\_: \_\_: \_\_: HIGH
- D. Overall market segment saturation              LOW : \_\_: \_\_: \_\_: \_\_: \_\_: \_\_: \_\_: HIGH
- E. Chain's relative position in the industry      MINOR : \_\_: \_\_: \_\_: \_\_: \_\_: \_\_: \_\_: DOMINANT
- F. Retail format maturity                              INTRODUCTION : \_\_: \_\_: \_\_: \_\_: \_\_: \_\_: \_\_: DECLINE

**PART II: INTERNATIONAL SOURCING ACTIVITIES - DIRECT BUYING FROM FOREIGN SUPPLIERS**

The following questions pertain to international sourcing activities of your company (i.e., *direct buying* from suppliers in foreign countries rather than *merely importing* foreign-made goods through intermediary companies) in relation to the merchandise offered in this retail chain.

1. Based on your opinion, please indicate the extent to which you agree or disagree with each of the following statements by circling the appropriate response number:  
 1= Strongly Disagree; 2= Disagree; 3= Somewhat Disagree; 4= Neither Agree Nor Disagree; 5= Somewhat Agree; 6= Agree; 7= Strongly Agree.

	STRONGLY DISAGREE							STRONGLY AGREE
A. <i>A great many products</i> offered in our chain are purchased <i>directly</i> from <i>foreign manufacturers</i> .	1	2	3	4	5	6	7	
B. My chain or corporation uses <i>an extensive number of foreign countries</i> from which to purchase products <i>directly</i> from foreign suppliers.	1	2	3	4	5	6	7	
C. My company uses <i>only a negligible number of foreign manufacturers</i> as our <i>direct</i> suppliers.	1	2	3	4	5	6	7	
D. My company has been involved in purchasing directly from foreign suppliers <i>for several years</i> .	1	2	3	4	5	6	7	
E. My company has <i>well established</i> relationships with our <i>vendors in foreign countries</i> .	1	2	3	4	5	6	7	
F. In purchasing foreign-made products offered in my chain, my company <i>does NOT have close contacts</i> with vendors in those foreign countries.	1	2	3	4	5	6	7	

**PART III: PAST, PRESENT AND FUTURE RETAIL INVOLVEMENT IN INTERNATIONAL MARKETS**

The following questions pertain to your company's intentions to expand this retail chain into foreign countries. Please respond to the questions by placing an "X" before the statements which accurately describe your retail strategies.

A. Does this retail chain presently have any retail establishments outside the U.S., regardless of the ownership structure such as management contracts, joint ventures or owned retail establishments?

[ ] YES [ ] NO

B. In considering the past, present and future international expansion strategies for your retail chain, which of the following apply to this retail chain (please check *all that apply*):

- \_\_\_\_\_ 1. We *have never been involved* in retail activities in countries outside the U.S.
- \_\_\_\_\_ 2. We are *not interested* in retail expansion in countries other than the U.S.
- \_\_\_\_\_ 3. We were *involved* in retailing outside the U.S. *in the past*, but we *no longer do so*.
- \_\_\_\_\_ 4. We *do plan to expand* internationally within the next 3 to 5 years.
- \_\_\_\_\_ 5. We intend *to increase* the extent of our international retail activities within the next 3 to 5 years.
- \_\_\_\_\_ 6. We intend *to lower* the extent of our international retail activities within the next 3 to 5 years.
- \_\_\_\_\_ 7. We intend *to keep the same level* of international involvement within the next 3 to 5 years.

#### PART IV: MANAGEMENT VIEWS ON INTERNATIONAL RETAILING

In this part of the survey, we are interested in your *opinion* about how international retailing is viewed by the top management of the company. We ask you to respond to the following statements *regardless of* whether this retail chain's management is interested in retail involvement in foreign countries or not.

Please indicate the extent to which you agree or disagree with each of the following statements by circling the appropriate response number: 1= Strongly Disagree; 2= Disagree; 3= Somewhat Disagree; 4 = Neither Agree Nor Disagree; 5= Somewhat Agree; 6= Agree; 7= Strongly Agree.

	STRONGLY DISAGREE							STRONGLY AGREE	
A. Different cultures and languages in international markets make the transfer of retail stores into foreign countries <i>extremely difficult</i> .	1	2	3	4	5	6	7		
B. International expansion increases a retailer's <i>public image and prestige</i> in the home market.	1	2	3	4	5	6	7		
C. International expansion <i>drains</i> a firm's resources.		1	2	3	4	5	6		
D. Long-term profits from retailing in international markets are <i>much higher</i> than in the U.S.	1	2	3	4	5	6	7		
E. Relative to domestic retailing, international retailing involves <i>significantly higher</i> risks.	1	2	3	4	5	6	7		
F. <i>Costs</i> associated with international retail expansion are <i>a waste of retailer's resources</i> .	1	2	3	4	5	6	7		
G. International retail expansion is <i>an excellent opportunity</i> to exploit <i>economies of scale</i> .	1	2	3	4	5	6	7		
H. International expansion is becoming <i>an increasingly viable venue</i> for future growth of a retail organization.	1	2	3	4	5	6	7		
I. Our management is actively exploring retail opportunities <i>in international markets</i> .	1	2	3	4	5	6	7		

**PART IV continue**

	STRONGLY DISAGREE					STRONGLY AGREE	
J. Our management feels it is important <i>to follow</i> our competitors' international moves.	1	2	3	4	5	6	7
K. The management of our chain <i>does NOT</i> gather information about <i>our competitors' performance</i> in international markets.	1	2	3	4	5	6	7
L. <i>Information</i> on international retail opportunities is currently being gathered <i>from published sources, industry associations and/or personal contacts within the industry.</i>	1	2	3	4	5	6	7
M. Our management is obtaining <i>information</i> on international retailing from <i>professional consultants and/or research institutions.</i>	1	2	3	4	5	6	7
N. We conduct <i>in-house market research</i> to obtain information on international retail opportunities.	1	2	3	4	5	6	7
O. Managers of our retail organization <i>frequently</i> travel abroad to gain experience in international business.	1	2	3	4	5	6	7
P. Managers of our retail organization <i>do NOT have</i> substantial hands-on experience in international business.	1	2	3	4	5	6	7
Q. Our management <i>does NOT have</i> substantial knowledge of international retailing and international business practices.	1	2	3	4	5	6	7
R. Our management has <i>a great deal of expertise</i> in handling international operations.	1	2	3	4	5	6	7
S. Managers of our retail organization have received <i>extensive formal training</i> in international business.	1	2	3	4	5	6	7

## PART V: STORE CHARACTERISTICS

This last section addresses characteristics of the retail chain you referred to throughout this survey and your position in the company. We are asking for your best estimates rather than exact numbers.

1. In the U.S., this retail chain's coverage is (please check one):

a) LOCAL [    ]                      b) REGIONAL [    ]                      c) NATIONAL [    ]

2. Number of *states* in which you operate stores under the existing store name: \_\_\_\_\_  
STATES

3. Number of *stores* in this retail chain: \_\_\_\_\_ STORES

4. Number of *years* since the origination of this retail chain: \_\_\_\_\_ YEARS

5. Your retail *format and sector* (please check *all that apply*):

- |   |  |
|---|--|
| <input type="checkbox"/> General Merchandise - Department Store | <input type="checkbox"/> Home Furniture, Furnishings & Electronics |
| <input type="checkbox"/> General Merchandise - Discount Store   | <input type="checkbox"/> Auto and Home Supply Store                |
| <input type="checkbox"/> General Merchandise - Specialty Store  | <input type="checkbox"/> Building Materials & Garden Supplies      |
| <input type="checkbox"/> Food Store - Supermarket               | <input type="checkbox"/> Apparel & Accessory Store                 |
| <input type="checkbox"/> Food Store - Large Combination Store   | <input type="checkbox"/> Drug Store                                |
| <input type="checkbox"/> Convenience Store                      | <input type="checkbox"/> Miscellaneous Retail Store                |
| <input type="checkbox"/> Food/Non-food Warehouse Store          | (merchandisetype not mentioned elsewhere - specify _____)          |
- Other retail format: \_\_\_\_\_

6. If your retail chain currently *does have* subsidiaries *outside* the U.S. , please answer the following questions, *otherwise go to question number 7 on the next page.*

A. Number of foreign countries in which you currently have retail establishments: \_\_\_\_\_ COUNTRIES

B. Number of years since the first retail establishment in a foreign country: \_\_\_\_\_ YEARS

C. Number of retail stores in foreign country (ies): \_\_\_\_\_ STORES

7. Size of the retail chain (and NOT the entire corporation should this retail chain be part of a retail conglomerate which operates a number of retail establishments under various store names):

A. Estimated number of full-time employees \_\_\_\_\_ EMPLOYEES

B. Approximate annual sales \_\_\_\_\_ DOLLARS

8. Number of years you have been with the company: \_\_\_\_\_ YEARS

9. Number of years you have worked in the retail industry: \_\_\_\_\_ YEARS

10. Please indicate the level of your involvement in *strategic decision making* for your company:

MINOR INVOLVEMENT 1 2 3 4 5 6 7 MAJOR INVOLVEMENT

**THANK YOU FOR YOUR TIME AND EFFORT**

Is there anything else you would like to tell us about your retail chain or retail corporation in general or about your future growth strategies? If so, please use this space for that purpose, or feel free to call us (423) 974-2141. We would like to speak with you.

---

Please return this questionnaire to us in the enclosed postage-paid envelope. If you are interested in receiving a copy of the report summarizing the findings of this study, please fill out the attached EXECUTIVE SUMMARY REQUEST CARD and return it with the questionnaire. We will be glad to share the results with you. Once again, thank you for your time and cooperation.

**APPENDIX B**

**EXAMPLES OF CORRESPONDENCE WITH RETAIL CHAINS'  
INFORMANTS DURING VARIOUS STAGES OF DATA  
COLLECTION**

(FIRST MAILING: COVER LETTER TO ALL INFORMANTS)

---

DATE

FIELD(inside)

Dear FIELD(dear):

As an executive of a retail company, you have seen the slowdown in the growth of retail demand as well as increasingly competitive conditions in the U.S. retail market. In planning strategies for future growth and striving to increase the market share of your retail chain, issues such as **future competitiveness of your retail chain** and maybe even **potentials for future international expansion** are important to your organization. The Retailing and Consumer Sciences program at the University of Tennessee is conducting a study addressing just these issues, as part of the research our doctoral candidate, Irena Vida, is doing.

We need your help to make this research a success. Please read the survey guidelines and complete the enclosed questionnaire which only takes **10 minutes to fill out**. After completing the survey, please return it in the enclosed postpaid envelope within two weeks if at all possible.

Please fill out the survey regardless of whether your retail organization currently does or does not have international involvement. **Your response is extremely important** to us. We would like to send you a report summarizing our findings, available in Spring/Summer 1997. For **your personal complimentary copy**, please fill out the enclosed 'EXECUTIVE SUMMARY REQUEST CARD' and mail it along with the completed survey. It is our hope that this report will be useful to you, facilitating your strategic planning as you take your retail chain into the 21<sup>st</sup> century.

Your own and your company's **anonymity will be preserved** and your responses to this survey will be kept in strict confidence. We will group your responses together with those of others and use them for statistical purposes. The return envelopes have identification numbers for mailing purposes only. They will be separated from the responses as soon as we receive them.

Thank you for taking a few minutes of your valuable time to support this important research project. Should you have any questions regarding this study or the items in the questionnaire, please do not hesitate to contact us.

Sincerely,

Ann Fairhurst, Ph.D.

Irena Vida, M.S.

Associate Professor and 1996 President  
of American Collegiate Retailing Association

Research Associate and  
Doctoral Candidate

Your completion and return of the survey constitute your consent to participate in the study.

(SECOND MAILING: A LETTER REMINDER TO ALL INFORMANTS)

---

DATE

Dear Retail Executive:

Last week a **Survey of U.S. Retail Chain Competitiveness and Potentials for International Expansion** was mailed to you. We hope you have decided to support this important project by sharing your opinions with us. The survey only takes **10 minutes to fill out**.

As indicated in our initial cover letter, the Retailing and Consumer Sciences program at the University of Tennessee is conducting a study aimed at identifying the factors which influence competitiveness and potentials for future international expansion of U.S. retail chains, as part of the dissertation project.

We ask you to respond to the survey even if your retail organization currently does NOT have any plans or interest to get involved in international retailing. In order to make the results of this study accurate and meaningful, **your response is extremely important**. Upon the completion of the study, we would like to send you a report summarizing our findings, which should facilitate your strategic planning as you take your retail chain into the 21<sup>st</sup> century.

The number of returned surveys we are receiving is very encouraging, indicating the growing importance of issues addressed in this study for future survival and growth of U.S. retail chains. If you have already completed and returned the questionnaire to us, please accept our sincere thanks. If not, we would appreciate your response at your earliest convenience.

In the event you did not receive the questionnaire or it has been misplaced, please call us as soon as possible so that we can mail you another one.

Sincerely,

Ann Fairhurst, Ph.D.

Irena Vida, M.S.

Associate Professor and 1996 President  
of American Collegiate Retailing Association

Research Associate and  
Doctoral Candidate

(THIRD MAILING: COVER LETTER TO NON-RESPONDENTS)

---

DATE

FIELD(inside)

Dear FIELD(dear):

About a month ago, a survey **U.S. Retail Chain Competitiveness and Potentials for International Expansion** was mailed to you. As of today, we have not yet received your completed questionnaire.

We have undertaken this study because of the ever growing importance of current and future competitiveness, and possibilities for future international expansion for the survival and growth of U.S. retail chains. The large number of returned questionnaires is very encouraging, which reflects the interest in the issues covered in our survey. However, whether we will be able to **accurately address** this very important topic depends on you and a few others who have not yet responded.

This is why we are contacting you again. In case our earlier correspondence did not reach you or the questionnaire has been misplaced, a replacement questionnaire is enclosed. Since the questionnaire only takes **about 10 minutes** to fill out, may we urge you to complete it and return it as soon as possible. Please fill out the survey **regardless** of whether your retail organization currently does or does not have international involvement.

Once we receive the remaining questionnaires and analyze the responses, we would like to send you a report summarizing our findings, available in Spring/Summer 1997. For **your personal complimentary copy**, please fill out the enclosed 'EXECUTIVE SUMMARY REQUEST CARD' and mail it along with the completed survey. It is our hope that this report will facilitate your strategic planning as you take your retail chain into the 21<sup>st</sup> century.

As indicated in our initial letter, any information obtained in connection with this study will remain strictly confidential. We will group your responses together with those of others and use them for statistical purposes only. The return envelopes have identification numbers for mailing purposes and will be separated from the surveys as soon as we receive them.

Your contribution to the success of this study will be greatly appreciated. We are looking forward to receiving your completed questionnaire. In the meantime, please feel free to contact us should you have any questions regarding this study or the attached survey.

Sincerely,

Ann Fairhurst, Ph.D.,  
Associate Professor and President of  
American Collegiate Retailing Association

Irena Vida, M.S.,  
Doctoral Candidate and  
Project Director

(FOURTH MAILING: POSTCARD REMINDER TO NON-RESPONDENTS)

---

A few weeks ago, a survey U.S. RETAIL CHAIN COMPETITIVENESS AND POTENTIALS FOR INTERNATIONAL EXPANSION was mailed to you.

As of today, we have not yet received your completed questionnaire.

We have undertaken this study because of the ever growing importance of the issues addressed in our survey for the survival and growth of U.S. retail chains.

The number of returned questionnaires is encouraging. However, it is **extremely important that your responses** also be included in the study for the findings be accurate and meaningful. We will share the results with you.

In case our earlier correspondence did not reach you or if it has been misplaced, please call me as soon as possible so that I can mail you another one.

Your contribution to the success of this study will be greatly appreciated.

Sincerely,

Irena Vida, M.S.,  
Doctoral Candidate & Project Director  
UNIVERSITY OF TENNESSEE: (423) 974-2141

**APPENDIX C**

**DESCRIPTIVE STATISTICS**

Statistics

	N		Mean	Std. Deviation	Minimum	Maximum
	Valid	Missing				
rda1	73	0	5.12	1.55	1	7
rda2	72	1	5.51	1.38	1	7
rda3	73	0	5.38	1.28	2	7
rda4	68	5	5.19	1.30	1	7
rda5	71	2	5.65	1.06	3	7
rda6	64	9	5.34	1.65	1	7
rda7	73	0	5.53	1.41	1	7
rda8	73	0	5.68	1.25	2	7
rda9	73	0	5.37	1.38	1	7
rda10	72	1	4.68	1.56	1	7
rda11	73	0	4.99	1.42	1	7
rda12	73	0	5.37	1.16	2	7
rda13	73	0	4.62	1.40	1	7
rda14	73	0	5.07	1.41	1	7
rda15	73	0	5.63	1.16	2	7
dmg1	73	0	4.62	1.70	2	7
dmg2	73	0	4.95	1.44	1	7
dmg3	73	0	5.30	1.25	2	7
dmg4	73	0	4.92	1.40	1	7
dmg5	73	0	5.42	1.46	1	7
dmg6	73	0	4.55	1.14	2	7
FSEXP1	72	1	3.78	1.99	1	7
FSEXP2	72	1	3.65	1.96	1	7
FSEXP3	72	1	4.13	2.05	1	7
FSEXP4	72	1	5.03	2.06	1	7
FSEXP5	72	1	4.58	1.92	1	7
FSEXP6	72	1	4.74	1.98	1	7
PAIE1	73	0	3.19	1.57	1	7
PAIE2	73	0	3.77	1.53	1	7
PAIE3	73	0	4.11	1.62	1	7
PAIE4	73	0	4.03	1.24	1	7
PAIE5	73	0	2.82	1.15	1	6
PAIE6	73	0	5.14	1.41	1	7
PAIE7	73	0	4.26	1.30	1	7
PAIE8	73	0	4.71	1.44	1	7
FKINFO1	73	0	3.26	2.19	1	7
FKINFO2	73	0	3.05	1.94	1	7
FKINFO3	73	0	3.73	2.09	1	7
FKINFO4	73	0	3.82	2.10	1	7
FKINFO5	73	0	2.92	1.93	1	7
FKINFO6	73	0	2.88	1.99	1	7
FKMNGT1	73	0	3.23	2.12	1	7
FKMNGT2	73	0	2.99	2.05	1	7
FKMNGT3	72	1	3.29	1.89	1	7
FKMNGT4	73	0	2.68	1.72	1	6
FKMNGT5	73	0	1.99	1.29	1	7
DMSTATES	73	0	26.99	16.12	1	50
DMSTORES	73	0	610.16	875.19	9	5000
DMYEARS	72	1	47.97	30.63	4	140
FCOUNTRY	22	51	7.0455	7.6062	1.00	30.00
FYEARS	22	51	12.3182	14.3904	1.00	60.00
FSTORES	21	52	1188.5238	3148.8842	1.00	11000.00
EMPLOYEE	73	0	30,251.82	76,248.92	280	500,000
VOLUME	73	0	4,217,310.44	10,169,142.46	25,000	75,000,000
PYEARS	73	0	13.96	9.76	1	45
PINDSTRY	73	0	21.42	8.82	4	45
pinvmt	72	1	6.03	.84	3	7

## VITA

Irena Vida was born in Ljubljana, Slovenia on May 19, 1962. She received her Bachelor of Science degree in Textile Engineering from University of Ljubljana, Slovenia, in November 1987. During her studies at the University of Ljubljana she attended a number of extended practical training programs and worked for companies and institutes in Egypt, Austria, Slovakia and Texas. For three years following her graduation, she worked in research and development, and later in export marketing capacity for a large apparel company in Slovenia. She was a research and teaching associate at the University of Ljubljana before she entered Virginia Polytechnic Institute and State University in Blacksburg, VA, in January 1991, and completed her Masters Degree in June 1993. She received the best paper award from the International Academy of Business Disciplines in Pittsburgh, PA in April 1994. Continuing her graduate program in Retailing and Consumer Sciences at the University of Tennessee, she received a Doctor of Philosophy degree in May, 1997. During her doctoral program, she independently taught various undergraduate courses at the University of Tennessee, and attended a number of national and international conferences in the United States, Italy, Hungary, Slovenia and Austria. She received a Teaching of Excellence Award from her Department at the University of Tennessee. Her papers have been published in the International Journal of Retail and Consumer Services, Marketing Magazine - Academia, Magyar Textiltechnika, Slovenian Economic Review, as well as in a number of conference proceedings.