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MASTER DEGREE THESIS

Internationalization decisions in the retailing sector: Walmart in South Korea

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Disclaimer: The following Master Degree Thesis has been written and will be defended in accordance with the rules of the Double Degree Program between Luiss Guido Carli (Rome) & Nova School of Business and Economics.
To my beloved family,
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Introduction

Over the past years the world economy has been converging, creating interdependent and integrated global systems (Marino 2016). The ongoing process of convergence is often referred as globalization that, on one side, is imputable to the fall of trade barriers and to the convergence of consumers preferences, whereas, on the other side, it has been shaped as well by the advancements in telecommunications and transportation technology, which have reduced the perceived geographical distance among markets (Marino 2016). Globalization creates valuable opportunities for firms as well, as they can boost their revenues by selling products abroad or can reduce costs by placing production facilities in areas where the key inputs are much cheaper than in the home country (Marino 2016). Additionally, the global expansion of corporations is nowadays facilitated by the new favorable trends in the political, cultural and institutional environments. Indeed, the free market orientation was driven by both the collapse of the Soviet Union and by the remarkable efforts of nations to welcome foreign investments, to deregulate markets, to privatize stated-owned companies, to increase competition, which allowed both small and large firms from advanced or developing countries to expand globally (Marino 2016). This trend is proved by the exponential growth of the number of firms undertaking an internationalization process and it is made even more relevant by the phenomenon of SME entering into the foreign markets (Zhou et al. 2007). However, not all the 196 nations have the same profit potential for a firm contemplating the possibility to expand internationally (Marino 2016). As a result, each country does not possess the same degree of attractiveness, which depends on the assessment of costs, benefits and risks related to the management of operational activities overseas (Marino 2016). Experts have pointed out that the long-term economic benefits are a function of several factors associated with the current situation of a specific country, namely its demographics, the purchasing power of its customers and its capacity for growth (Marino 2016). Conversely, the costs and risks associated with doing business abroad seem to be much lower in advanced and politically stable countries and much greater in developing countries (Marino 2016).
As such, the international expansion is one of the greatest challenges faced by the modern enterprise and, when firms contemplate the possibility to expand internationally, three main decisions must be carefully addressed, specifically which markets to enter, the time of entrance (early or late entrance) and the mode of entry in foreign markets, which, if chosen properly, can be the starting point for the overall success in foreign markets. As inferable, foreign market entry decisions seem to profoundly affect not only the competitiveness of the parent company but it accounts as well for the performance of foreign subsidiaries abroad (Huang & Sternquist 2007). Having decided to enter a foreign market, an MNC has to deal carefully with the choice of the best entry mode among a wide array of alternatives. The main dominant frameworks include Transaction Cost Theory and Institutional Theory, which includes as well cultural factors. While the former suggests the appropriate mode of entry according to the trade-off between the internalization of activities or transferring them to third parties; the latter, instead, outlines two sources of isomorphic pressures faced by firms, namely host country or home country pressure (Davis et al. 2000). As inferable, each mode of entry entails different implications in terms of control, risk, political and cultural awareness. Consequently, in view of selecting the right mode of entry, it is not possible to limit the attention just to one single framework, but there is the necessity to consider a unified framework in which different factors can be related and analyzed by taking into account what each contribution prescribes and suggests when firms seek to penetrate foreign markets. (Hill et al. 1990).

The globalization phenomenon has led different firms from several sectors to expand the geographical scope of their activities in search for higher growth. However, there are some sectors in which the need for geographical expansion is more emphasized. This is the case of the retailing sector where firms face saturation of domestic markets, and therefore, the internationalization is regarded as a sustainable strategy for growth (Mešić 2014). The international expansion within this sector is not new and it dates back to the end of the 19th century that saw the rise of a select group of retailers undertaking aggressive merger and acquisition activities so as to assume dominant positions in East Europe, East Asia and Latin America (Coe & Lee 2006).
Equally remarkable is the dramatic increase in the scale and scope of retailers’ international sourcing operations, which resulted firstly in regional and latterly in global sourcing operations both for their domestic and overseas stores (Coe & Lee 2006). As such, stores and sourcing are the two dimensions that characterize retailing as an important component of the globalization phenomenon (Coe & Lee 2006).

Among firms in retailing sector, Walmart is of particular interest as it is a global retailer, but still takes its strategic decisions, being reliant on its US customers (Gandolfi & Štrach 2009). The company, founded in Bentonville, started its international expansion through a combination of green-field investments, acquisitions and joint-ventures. These strategies have resulted to be effective and successful in some markets where it achieved outstanding growth, but unfortunate in other markets, such as South Korea from which it was forced to withdraw in 2006. The paper will address the pull-out from South Korea by drawing a comparison with its counterpart Tesco, that in the same market has reported an outstanding success through the joint venture approach with a local partner (Coe & Lee 2006). Such comparison will show that while Walmart has linked the entry mode choice to the need to replicate the well-established US business model, Tesco, instead, entered the market by choosing an entry mode that could allow it to achieve the level of local responsiveness required by the South Korean market.
Chapter 1: International expansion; Literature Review and Dominant theoretical frameworks

1.1 The Internationalization Strategy

The concept of strategy comes from the Greek word “Strategia”, which is used to indicate how military resources and actions should have been deployed so as to guarantee victory over enemies. When it comes to firms, the overall meaning remains the same as organizations adopt different action plans in order to achieve a strategic position within the competitive arena. Chandler (1962) defined strategy as “the process through which long term goals are established and resources are allocated accordingly in order to fulfill the objectives outlined”. From the overall meaning of strategy, it is possible to consider two levels that make clear how strategic plans engage the entirety of an organization: the top-level concerns with the corporate strategy, which indicates the overall scope of the organization, and the business level that is more related to how the company intends to compete, that is to say, how the company seeks to achieve a competitive advantage (Johnson et al. 2008). Our focus, for the purposes of the project, will revolve around the concept of corporate strategy. The top-level strategy defines the scope of firms’ activities whose dimensions branch out into: vertical, product or geographical scope (Grant 2013). From each dimension a corporate strategy results, namely vertical integration, diversification and internationalization respectively. The latter one has assumed significant relevance nowadays as many firms perceive the need to expand their operational activities beyond the national boundaries. This has been possible mainly because of political and economic changes, which have enabled markets to interact and have provided firms with different growth opportunities (Marino 2016). The concept of internationalization has embraced different meanings; Luostarinen and Welch (1988) defined it as “a process of increasing involvement in international operations”, while Turnbull (1987) tended to describe it as “the outward movement in a firm’s international operations”. Nevertheless, over the years in response to different factors internationalization has also taken the form of de-investment; Calof and Beamish (1995), by taking into account the current trends of the internationalization, came up with a holistic definition as “the process of
adapting firms’ operations to international environments”. The existing and outstanding literature about internationalization identifies two different orientations about international expansion: inward and outward. The inward orientation consists of exploiting management skills, new technologies and direct investment from foreign countries (Luostarinen & Welch 1993), which induces firms to enhance their performance through learning or utilizing foreign technologies, management skills and capital investment (Buckley et al. 2002); on the flip side of the coin, outward orientation deals with the need of firms to join forces with foreign partners and to increase the amount of sales in foreign markets, taking advantage of the economies of scale and scope arising from larger volume of sales that in turn will lead to higher revenues growth (Kogut 1985). Given the two orientations outlined, research about internationalization has branched out into two streams: economic and behavioral approach.

The economic stream revolves around the eclectic paradigm of Dunning and the product life cycle model of Vernon; whereas the behavioral approach, often defined as process stream, is centered around the Uppsala Model (U-Model) and the Innovation-Related Model (I-Model).

The economic approach has its roots in the assumption that the firms have access to perfect information and will choose the rational solution (Andersson, 2000). The eclectic paradigm has the intention to offer a holistic framework, which helps to identify and evaluate the significance of factors influencing both the initial act of foreign production and the growth of such production (Dunning 1988). In the early version of eclectic paradigm Dunning (1988) pointed out that the likelihood of success in foreign markets is given by the combination of three sets of advantages that a firm must possess as vital precondition before entering in a foreign market, capable of offsetting the costs arisen from the establishment of operations in a foreign country and from the processes involved in delivering a value proposition to foreign customers (Hermannsdottir 2008). These advantages are ownership-specific (O), location-specific (L) and internalization-specific (I) (Dunning 1988). The ownership advantages are split in three categories; firstly, those arising from the possession of specific income generating assets (Hermannsdottir 2008),
secondly those resulting from exploiting an existing plant rather than building operational facilities from scratch and thirdly the ability to make up the “liability of foreignness” resulting from carrying out cross-borders operations and from gaining an overall superior competitive position over rival local firms (Benito & Gripsrud 1992). The location specific advantages, on the other hand, revolve around the possibility to encounter favorable conditions in terms of lighter regulation or government incentives, which will play as a stimulus for firms to locate their production or a part of it in a foreign market (Hermannsdottir 2008). Therefore, it is of paramount importance for the company to evaluate the attractiveness of the target foreign market in terms of fit with the overall strategy (Ekledo & Sivakumar 1998). The third component of the triad, instead, is related to the internalization of specific advantages which are characterized by the benefits coming from retaining assets and skills within the firm (Hermannsdottir 2008). Nevertheless, it is noteworthy to mention that the OLI paradigm has been modified as the earlier framework struggled to capture the differences existing between FDIs from developed economies and FDIs from developing ones (Si et al. 2013). To better address the issue, the modified OLI has been put forward, by firstly introducing that MNEs benefit from country-specific advantages arising from the access to home country resources and secondly by suggesting that internationalization strategy is not only about exploiting assets, but also assets augmenting, which consists of entering in foreign markets to acquire strategically created assets (brands, distribution channels and technology), capable of offsetting their shortcomings (Kuemmerle 1999). Equally interesting it is to draw the attention on the comparison that many researchers are increasingly making between the modified OLI and the Linkage-Leverage-Learning, which is a model that attempts to fill the theocratical gaps about the internationalization of latecomer firms in the global marketspace (Si et al. 2013). This model is centered by the notion that latecomer firms may turn their disadvantages in sources of competitive advantage (Si et al. 2013). The model is fueled by the knowledge absorption theory, which suggests that learning and knowledge absorption play an important role in upgrading the knowledge base of those companies suffering from a technological gap (Si et al. 2013). The LLL framework envisages a three-step process in the knowledge acquisition of late-comer
firms. Firstly, globalization fosters the desire to build relationships with the existing networks to mutually benefit from the exchange of knowledge, secondly the access to the new form of knowledge enhances growth opportunities as long as the resource recently acquired is exploited properly in the attempt to diversify the portfolio of the recipient, and thirdly the overall success depends on the ability to combine and integrate the new knowledge with the existing resources (Si et al. 2013). The LLL model, however, presents many differences rather than similarities with the modified OLI as it is focused on a resource-based perspective, entails networks as a type of activities of the MNEs in addition to the well-established market and hierarchy forms, and stresses the importance of the learning process of the firm within the internationalization process (Si et al. 2013).

The second often cited model within the economic stream is the product life cycle of Vernon (1966). The model is structured so as to fill the gap between the country-based perspective of international trade theory with the firm’s perspective of international investment theory (Melin 1992). Vernon (1966) centers his model by stressing the importance of product innovation, economies of scale and the effect of uncertainty in shaping patterns in the internationalization process. According to Vernon, there is a close relationship between each stage of internationalization with the product life cycle (Melin 1992). During the introduction period, operational activities are mainly carried out within the national boundaries, then as the products enter in the growth stage, there is the need to export the product or establish plants in foreign countries that can generate potential demand for the product (Melin 1992). Conversely, during the maturity phase, in response to the standardization of the products and saturation of markets the orientation is headed towards countries with low labour costs (Melin 1992). Lastly, in the decline stage it is better to leave the industrial country, which was the home for the original innovation (Vernon 1966). Although the model is a significant contribution to explain the reallocation of activities, it seems to be weak, if applied to products characterized by a low life cycle (Melin 1992).

Turning the attention to the behavioral stream of internationalization, two models stand out, namely the Innovation-related model (I-M) and Uppsala
Model (U-M). Both models, often defined as *process models*, emphasize the behavioral man rather than the economic man as the actor that triggers the internationalization process (Andersson 2000). They derive from the organizational theory and underline the importance of the learning process, which shapes the international behavior of firms (Andersson 2000).

Both models depart their analysis considering two factors affecting the gradual process of internationalization: the lack of experimental knowledge and the uncertainty related to the decision to internationalize (Andersen 1993). The gradual process is built mainly starting from the U-Model (Johanson & Vahlne 1977), while the I-model is a further contribution that links the learning sequence to the adoption of innovation according to Roger’s adoption curve, which regards the internationalization process as a form of innovation for the firm (Andersen 1992).

The main contribution to the behavioral stream comes from the Johanson and Vahlne model (Figure 1.1).

![Figure 1.1: U-Model (Jan Johanson & Jan-Erik Vahlne, 1977)](image)

The main assumption underlying the model is the concept of *physical distance*, defined as a factor that interferes both positively and negatively with the flow of information between firms and markets, including language, cultural, education and political systems (Johanson & Vahlne 1977). The model outlined is dynamic as the outcome of one stage is the input for the following one and tends to distinguish between “*state*” and “*change*” aspects during the internationalization process (Johanson & Vahlne 1977). While the state factors
are market commitment and knowledge about foreign markets and operations, the change factors, instead, deal with the decisions to deploy resources and with the performance of the main activities (Johanson & Vahlne 1977). The model is somewhat circular as the state factors affect the change factors, which in turn will affect again the former ones (Johanson & Vahlne 1977). Market commitment is made up by two elements: the amount of resources committed and the degree of commitment. The former concept can be related to the size of the investment in the foreign markets, whereas the latter seems to assume the form of a sunk cost as it is defined the difficulty of finding an alternative use for the resources or of transferring them to an alternative use (Johanson & Vahlne 1977). Conversely, the change aspects are characterized by current activities and commitment decisions. The former ones require both general knowledge of operations transferrable from a country to another and market-specific knowledge, gained through experience in the market (Johanson & Vahlne 1977). Current activities are primary sources of experience from which commitment decisions are strictly dependent and reflect the allocation of resources to foreign operations accordingly to the perceived problems or opportunities (Johanson & Vahlne 1977). However, Johanson and Vahlne (2003) have recognized the importance to upgrade their U-model (1977) with a business network model, which combines the experimental learning commitment with a new type of mechanism focused on networks as the latter ones play a crucial role in shaping relationships and discovering opportunities in the international expansion (Johanson & Vahlne 2003).

One criticism often moved against the U-model is the incapability to explain why different firms have different internationalization processes (Andersson 2000). To that aim, Andersson (2000) underlined the importance to include a further perspective within the established theoretical frameworks known as entrepreneurial perspective. This new branch of research is centered around the role of the entrepreneur, who is basically the main actor that triggers and may want to undergo an internationalization process (Andersson 2000). This view tackles the issue by considering technical, structural and marketing entrepreneurs who have different needs and consequently will choose different international strategies, giving rise to diverse internationalization decisions (Andersson 2000).
As internationalization has become a complex phenomenon, a heterogenous range of perspectives needs to be considered, rather than limiting the analysis to simply assess the superiority of a framework with respect to another (Andersson 2000). Hence, the economic and behavioral streams should be considered as complementary rather than mutually exclusive (Andersson 2000). As such, the economic view allows to better understand the later stages of internationalization but it overlooks how the process is deployed (Andersson 2000); on the flip side the behavioral stream addresses the pitfalls of the economic view but ignores the possibility of individuals, capable of making strategic choices (Andersson 2000).

1.2 The internal and external drivers for international expansion

In recent years the number of firms that have undertaken an international expansion has risen dramatically. The favorable political and economic conditions, namely the erosion of national boundaries and the opening of new markets, have pulled firms to consider the possibility to embrace operational activities beyond the national boundaries (Marino 2016). Nevertheless, in order to properly regard a firm as an internationalized one, three requirements must be strictly met. Firstly, it is crucial that the international expansion is real and not merely financial, meaning that it is necessary to show an active presence in foreign markets either by selling products or simply joining forces with local partners (Grant 2013). Secondly, the international expansion must be geographical by exiting the national boundaries and thirdly, as inferable from the previous point, operating in several countries will result in an exposure to a multiplicity of authorities (Grant 2013).

Internationalization is a process that determines changes at an institutional, at industry and at a firm level as well (Grant 2013). As inferable, when the market is getting internationalized, an immediate effect is the lowering of entry barriers in a specific industry, which in turn, will increase the grade of competitiveness among existing firms, both domestic and international competitors, which increases the range and the diversity of offerings within the industry (Grant 2013). A likely outcome of such increase in competitors’ diversity will enable customers to have a wider spectrum of choice and
consequently their bargaining power towards companies increases (Grant 2013). As a result, internationalization has the side-effect to reduce the overall profitability, but, despite that, firms are still eager to internationalize. This phenomenon leads researchers to think about the existence of peculiar drivers of internationalization, which make international expansion appealing, despite the overall decrease in profitability (Grant 2013).

These drivers revolve around a notion of internationalization, which is linked to the idea of comparative advantage of countries. A country has a comparative advantage in those products that make intensive use of resources available in abundance in that country (Grant 2013). It is important to point out that comparative and competitive advantages do not necessarily coincide but this happens, if and only if exchange rates do not deviate from the purchasing parity levels (Grant 2013).

The aforementioned drivers are split in internal and external ones. The former ones can be considered as the willingness to seek new sources of competitive advantage, or as a strategy to exploit the current competitive advantage overseas or as a strategy to explore new levers that will enhance the reach of the current competitive advantage (Grant 2013). In the first case, firms will experience a shrinkage of the power of their competitive advantage in the home country and consequently are eager to find new combinations by expanding internationally (Grant 2013). In the second scenario, the current competitive advantage is still effective in the home country and firms decide to simply replicate it in another country, whereas in the third case the competitive advantage in the domestic market still produces tangible results but companies do not overlook the possibility to find in foreign markets new benefits, capable of boosting the strength of the current competitive advantage (Grant 2013). The benefits offered by the international expansion can be grouped in three categories: transactional benefits, arbitrage opportunities and use of competitive leverage (Grant 2013). The first group includes natural resources seeking and market seeking. The former provides better conditions for companies’ transactions as, by getting closer to the resources, the procurement of resources is less expensive and transportation costs are reduced; whereas the latter becomes vital when home country reports a reduction in demand and
foreign markets may generate potential interest and, consequently, demand for firms’ products (Grant 2013). While arbitrage opportunities deal with the possibility to have better access to resources and to benefit from a favorable institutional environment in terms of fiscal burden, the use of competitive leverage, instead, revolves around the concept of leveraging those elements that make unique and strong the competitive advantage in the home country, with the expectations to further enrich it in the foreign market by joining forces with new partners, by reducing risk or simply by exploiting the made in effects (Grant 2013). The benefits arising from internal drivers are not mutually exclusive but can co-exist (Grant 2013).

The external factors result from the environment in which the company operates. Firms may be pulled to internationalize simply because the domestic market is matured and in order to survive it is paramount to find new markets where demand can be generated and absorbed (Grant 2013). Moreover, international expansion is made even easier nowadays as transportation costs have reduced significantly compared to few decades ago. Additionally, companies are pulled by the so-called band-wagon effect, which pushes a MNC to simply replicate the behavior of other successful firms in the attempt to achieve the same results (Grant 2013).

In analyzing the factors driving the international expansion, it cannot be ignored the contribution provided by Michael Porter who aimed at better understanding how nations prepare the set of valuable opportunities for firms entering their environments (Grant 2013). His contribution is often associated with the National Diamond model (Figure 1.2), which is an innovative framework as it adapts the theory of comparative advantage by taking into consideration three main factors (Grant 2013): firstly, international competitive advantage is for companies as countries prepare the home base in which firms operate; secondly, competitive advantage becomes sustainable only through innovation and upgrading of resources and capabilities; thirdly, the national environment affects innovation and the upgrading of resources (Grant 2013).

According to the National Diamond Framework, a country offers a combination of four elements, which constitute the bases for the comparative
advantage, namely factor conditions, demand conditions, supported and related industries, strategy, structure and industry rivalry (Grant 2013). Factor conditions are the natural endowments of resources that a country offers, but as each country has a set of endowments, it is crucial to consider specialized factors (*home grown*) that make a specific country more appealing than others (Johnson *et al*. 2008). Furthermore, Porter focuses on the importance of industry clusters in better developing the industry within the country (Grant 2013). Demand conditions, instead, revolve around the nature of customers as interacting with sophisticated and demanding customers in domestic markets can set the precondition to be effective overseas (Johnson *et al*. 2008). The fourth leg of the model concerns with strategy, industry rivalry and structure. It is always crucial to understand the configuration of each industry as, when there is a lot of competition, the system is self-reinforcing (Grant 2013) resulting in continuous improvement of resources and of innovation, but on the flip side if the country has and supports a champion, it is difficult for the industry to grow so fast (Johnson *et al*. 2008).

The National Diamond model as whole is a system in which each element interacts with the others and each one can be a source of attraction or of repellent (Grant 2013). However, when looking at Porter’s framework it is a must-have to consider two agents playing at the top: *chance*, which influences the development of the diamond, and *government* that can pull demand for specific products, can push firms for the specialization or for the investment of certain factors or can stimulate rivalry by limiting cooperation or enforcing anti-trust regulation (Grant 2013).

An important takeaway from the National Diamond Framework is the necessity
to align a firm’s strategy with the competitive conditions of the country towards which it is willing to enter. This alignment as well entails coherence and congruence between firms’ strategy and national cultural conditions (Grant 2013).

1.3 The Internationalization Process

Johanson and Vahlne (1977) have been the pioneers in considering the dynamism of internationalization process, which evolves through different stages. Even though international expansions take place with different timing and modes, researchers have tried to identify the main steps that are supposed to be common among all organizations during their attempt to expand beyond national boundaries. Nevertheless, general consensus has been reached among experts to consider four phases within the internationalization (Johnson et al. 2008):

- Entrance in the foreign market
- Establishment of its presence within the foreign competitive arena
- Development of the competitive position
- Rationalization of the international presence

Noteworthy to underline is that the outlined phases are not necessarily in a sequential order but it is often to witness that firms may jump from a stage to another, mainly when the internationalization is driven by the market (Johnson et al. 2008).

The entrance stage is, broadly speaking, characterized by two decisions: location selection and choice of the entry mode. Location decisions basically revolve around the need to identify potential markets, capable of yielding significant opportunities in terms of growth and long-run profitability (Grant 2013). To that aim, the most attractive markets are those that are politically stable, that have free market economy systems with low inflation rates and private sector debt (Marino 2016). Furthermore, a market becomes even more attractive when the firm at issue produces a product, capable of meeting an unsatisfied need in the foreign market (Marino 2016). The choice of favorable
markets must be scrutinized by taking into account different elements, namely natural resources conditions, firm specific advantages and tradability issues (Grant 2013). While the natural resources conditions make particularly attractive those locations in which the required resources for a product are available at lower costs; firm specific advantages, instead, imply to carry out an internal analysis of the company in terms of internal resources and capabilities so as to understand whether they can be transferred to assure the replication of the home competitive advantage (Grant 2013). Last but not least, the choice of foreign markets is also driven by tradability issues, which are centered around the likelihood of products to be exported (Johnson et al. 2008). Tradability issues draw attention on the link between the type of investment and the related industry, affecting also the choice of mode of entry (Grant 2013). According to the propensity of a product to be traded and to the commitment in foreign markets in terms of direct investment, four types of industry can be depicted: sheltered, trading, multi-domestic and global industries (Grant 2013). Sheltered industries do not expand abroad as the product is not tradable and a direct investment would not be worth, as they lack of economies of scale and are mainly fragmented (Grant 2013). This type is labelled “sheltered” because they remain protected by being domestically localized (Grant 2013). The trading industries, instead, are characterized by a country specific production for which the product is tradable and can be produced domestically and then exported overseas (Grant 2013). Contrary to trading industries, the multi-domestic one is the industry in which the product is not tradable at all and it is better to invest directly in foreign country (Johnson et al. 2008). The global industries, on the flip side, tend to benefit from both effects. They invest directly in foreign markets and then the products are at the same time easy to be moved among countries (Grant 2013). Shortly afterwards having identified the attractive markets, firms must decide on the time of entrance and on its scale (Marino 2016). The time of entry can be early or late with respect to other firms, having both advantages and disadvantages, namely first-mover advantages and pioneering costs respectively (Marino 2016). First mover advantages include the possibility to overcome rivals by establishing a strong brand name, the ability to easily run down the experience curve due to the first higher volume of sales, which yields a cost advantage over late entrants, and lastly the ability
to create strong switching costs at inception, which will make extremely difficult for customers to consider other competitors (Marino 2016). The flip side of the coin include the so-called pioneering costs, which arise when the business system is completely different from the home market and being the first mover requires to devote considerable efforts and resources in order to learn the rules of the game (Marino 2016). As inferable, if the company does not properly understand the foreign market, it may commit serious mistakes leading to its failure in that specific market. Equally important is to select the right scale accordingly with the strategic goals (Marino 2016). A significant scale of entry presents no turning point and depicts a strong strategic commitment, whereas a smaller scale of entry allows the company to understand the foreign market but at the same it limits the exposure in that market (Marino 2016). Equally important is to point out that location decisions, like any other type of decisions, are always driven by the trade-off between operational efficiency and cost savings (Grant 2013). Cost advantages are vulnerable to inflation rates and exchange rates, while fragmentation of the value chain requires an increase in coordination costs (Grant 2013). The second component of decisions within the first phase concerns the selection of the entry mode, which also depends on tradability issues. As such, it is possible to cluster mode of entry within two groups: one extreme is characterized by market transactions as the product is tradable, whereas the other extreme requires an equity investment (Grant 2013). In the following section, a detailed analysis about drivers affecting the selection of entry modes will be outlined.

During the first stage, it is not possible to suggest which decisions are more suitable for the selection of markets, time and the mode of entry as each decision has different levels of risk and reward (Marino 2016).

The second stage revolves around the establishment of the international position where the company seeks to balance the goals and results achieved during the entrance phase (Johnson et al. 2008). During this stage, the company tries to study the external environment so as to understand which resources are needed to compete within the market, which routines should be developed and the extent to which it is possible to replicate home operations or whether it is necessary to adapt them locally (Grant 2013).
Following the establishment phase, the firm has to develop its competitive presence. This stage is a trade-off between centralization or local adaption and consists of strengthening and enhancing all those resources and routines identified in the previous phase (Johnson et al. 2008). It is interesting to outline that not all firms enter the third stage as it often happens that many stop their process in the previous one or it might occur that the establishment phase is so rapid that firms start straightforward figuring out a new strategic vision (Caroli 2008). Additionally, firms, being able to approach this stage, may experience a new impulse force that allows them to strengthen and broaden their competitive presence within foreign markets (Grant 2013).

The fourth and last stage is related to the internal environment of the company in which it steps its business portfolio by giving them a proper rational planning (Grant 2013). During this stage, the entire value chain is carefully organized at a global level and the relationships between corporate and subsidiaries gain more complexity and decree the success of the competitive advantage within the global arena (Grant 2013). As a result, the corporate has to better define the tasks of business units in line with the strategic and operational complexity in international markets (Johnson et al. 2008).

1.4 Entry strategies in foreign markets

Following the decision to enter a foreign market, an MNC has to carefully plan the mode of entry through which it will organize its operational activities overseas. Broadly speaking, the vast dominant literature on the issue tends to differentiate modes of entry according to an equity perspective: distinguishing between non-equity contractual modes, such as licensing, and equity-based cooperative venture or wholly owned subsidiary (Hill et al. 1990). This is only one of the possible distinction among modes of entry; others, for example, tend to group them according to the tradability of the product and to the overall commitment in foreign markets (Grant 2013). Regardless of the classification adopted, the decision of each mode of entry cannot disregard the consideration of three variables: degree of control, defined as level of authority over strategic and operational decision making, dissemination risk, defined as the likelihood of firm specific advantages to be usurped by the foreign partner, and asset
specificity, defined as dedicated assets that cannot be deployed in alternative uses without the loss of their value (Hill et al. 1990). As inferable, the selection of an entry mode is not an easy task and it will decree the success of the internationalized firm in foreign markets.

Researchers have long attempted to explain that the selection of the mode of entry is mainly driven by transaction costs motivations (Hill et al. 1990). However, as the phenomenon is increasing in popularity and given the relevance of making a good choice, it is of paramount importance to present a holistic framework, trying to capture the contributions of each perspective, with the goal to enrich the overall understanding of how firms select a specific mode of entry rather than others (Hill et al. 1990).

Recently scholars such as Delios and Beamish (1999) have started drawing the attention to combine the transactions costs perspective with the institutional dimension, which includes as well cultural factors. The institutional perspective enlarges the transaction perspective as “it refers to conditions that undermine property rights and increase risks in exchange” (Delios & Beamish 1999); whereas cultural variables offer managerial implications in tackling the uncertainty and the cost evaluation in foreign markets (Hill et al. 1990).

Transaction costs perspective always takes into consideration the costs of integrating an operation within the firm and those incurred if that operation is carried out by an external party, suggesting to choose the option which entails the minimal cost (Williamson 1985). Generally speaking, transaction costs are related to the non-operation of the price market mechanism and arise throughout the economic exchange, before, during and after the transaction (Coase 1937). This evaluation concerns as well the case in which a firm enters in a foreign market as it has to compare the costs of searching, negotiation and controlling the local partner with the costs incurred if it internalizes the operations by setting up a subsidiary. Noteworthy to mention is that Williamson (1985) has identified three conditions in which the firm might experience even higher transaction costs, when it comes to expand activities overseas, namely the difficulty in estimating all possible contingencies, asymmetry information, which prevents from coming up with a fair price for
the transaction and the difficulty to monitor and control local partners because of distance or communication problems (Hill et al. 1990). The transaction cost perspective suggests that when the costs of finding, negotiating and controlling local partners are low, it is frequent to see market-based entry modes, but as soon as these costs increase gradually, MNCs tend to switch to hierarchical forms such as wholly owned subsidiary (Brouthers 2013). However, transaction costs are not only related to the outside environment but they may also revolve around internal capabilities and resources. Under this view, it is important to consider the asset specificity, which refers to assets that may lose value in alternative uses (Williamson 1985). As inferable, when the company possesses firm specific technologies, it inevitably encounters higher transaction costs imputable to the need to safeguard it from usurpation and to the higher control governance so as to avoid opportunism and moral hazard behaviors (Brouthers 2013). It follows that when there is a lower threat of opportunism and consequently the focus is on efficiency, firms will tend to choose less integrated modes of entry (Brouthers 2013).

Nevertheless, it is crucial to combine the transaction costs theory with the institutional perspective, as the latter offers the platform in which the transactions costs incur (North 1990). Taking into account this view, an MNC faces two types of pressures when it enters a foreign market: the first is the need to adapt to local markets and to its characteristics, and the second is centered around isomorphism, which is “the constraining process that forces one unit of the population to resemble other units that face the same set of environmental conditions” (Di Maggio & Powell 1983). According to Davis et al. (2000), it is possible to depict two forces that exert institutional pressures on organizations: internal or parental and external forces, which are significant contributors in selecting the mode of entry at the business unit level. Indeed, when SBUs tend to be mostly influenced by the internal environment and comply with the institutional norms of the parent firm, the typical mode of entry entails a high level of control in which SBUs struggle to resemble to each other (Davis et al. 2000); on the flip side, however, if SBUs tend to oblige more to host country institutional environment, low or medium control entry modes are mainly preferred (Davis et al. 2000).
Within this framework, however, it cannot be ruled out the necessity to include also a cultural perspective as the cultural contest allows to understand the profit potential or the investment risk associated to a mode of entry (Brouthers & Brouthers 2000). A stylized fact emerging from the dominant literature is the propensity of firms to choose more attractive, but at the same time less risky markets, which are economically stable and culturally similar (Brouthers 2013). When firms enter economically stable and culturally similar markets, they intend to maximize the return on investment through the wholly-owned subsidiary (Brouthers 2013). However, an intermediated form, such as joint-ventures, is often chosen if markets present a high-risk investment, which is associated to the need for local knowledge and to the exposure of assets (Brouthers 2013). As this risk gradually increases, firms seek local knowledge through joint ventures since it is a reasonable solution that allows to mitigate the risk but at the same provides lower costs due to the pooling of information (Brouthers 2013). Furthermore, the cultural contest also shapes the profit potential of a foreign market in terms of its impact on opportunity costs and market capacity. To better understand the profit potential offered by markets, it is necessary to classify them in two categories: those that have a great ability to absorb additional production capacity, providing an efficiency improvement for the firm, and those that, being stagnant, firms are reluctant to invest massively into (Brouthers 2013). Additionally, opportunity costs tend to be higher in the high-growth markets, as they offer opportunities for premium pricing, and lower in slow-growth markets given the restricted opportunities on pricing strategies (Brouthers 2013). By considering high growth markets and slow growth ones, firms will prefer the wholly owned subsidiary in the first case and less integrated forms of entry modes in second case. The choice of wholly owned subsidiary in high-growth markets is driven by the possibility to exploit scale economies, resulting in a lowering of production costs, and to establish a long-term market presence (Brouthers 2013). Conversely, in slow growth markets less integrated forms are predicted to yield higher returns from a lower resource commitment and to reduce switching costs of the market exit, if sales are excessively low (Brouthers 2013). The study conducted by Brouthers (2013) has offered useful managerial implications in terms of modes of entry. It has been found out that firms adopting a comprehensive approach,
including also institutional and cultural variables, tend to achieve better performance both financially and not-financially (Brouthers 2013). This is possible because a holistic framework enables both to enhance the *operational efficiency*, typical object of transaction costs theory, and the *value enhancement*, object of the institutional and cultural contest (Brouthers 2013).

So far, the selection of mode of entry has been analyzed by offering a holistic framework that combines transaction costs, cultural and institutional explanations. At this stage, it seems as well reasonable to analyze the variables at stake, which will lead to opt for a mode of entry rather than for another. These variables can be broadly classified in strategic, environmental and transactional ones (Figure 1.3), presented in a study conducted by Hill *et al.* (1990). While strategic variables influence the choice of modes of entry in terms of control requirements, environmental variables, instead, exert influence in terms of resource commitment and transaction variables affect the choice by taking into consideration the dissemination risk (Hill *et al.* 1990).

![Figure 1.3: Framework of Variables affecting entry modes' decisions (Charles W. L. Hill, Peter Hwang and W. Chan Kim, 1990)](file)

Strategic variables have been identified in the extent of national differences, of scale economies and global concentration. Hill *et al.* (1990) have suggested that strategic variables will shape mainly the strategy to be pursued in foreign markets and according to it, an appropriate mode of entry is selected. As such, firms that intend to pursue a multi-domestic strategy, based on recognition of substantial differences among home and host market in terms of consumers preferences, legal and political settings, will assign strategic operations to the national subsidiaries (Hill *et al.* 1990).
The strategy entails a low level of control and consequently a low or medium resources commitment entry mode will be preferred such as licensing or joint ventures (Hill et al. 1990). On the flip side, if firms intend to pursue a global strategy in the attempt to achieve cost advantages from global scale economies, it follows an interdependent global system, which necessarily requires a high degree of control, not in line with licensing or joint ventures, as all decisions should be centralized; in this case a wholly-owned subsidiary is preferred (Hill et al. 1990).

Environmental variables include country risk, location familiarity, demand and competitive conditions, which will impact on resources commitment and on their strategic flexibility (Hill et al. 1990). Country risk is made up by four components that have been identified by Root (1987). Broadly speaking, these are political risk (political instability), ownership risk (expropriation), operational risk (price control or local content requirements) and transfer risk (currency inconvertibility) (Hill et al. 1990). Location familiarity, instead, is the perceived distance between the home and host country in terms of economic systems and business practices and depends on both the physical distance and the prior experience in that market. In case of high country risk and low location familiarity, MNCs should choose entry modes that would reduce their exposure to that risk and would allow at the same time to facilitate the market exit without incurring in significant sunk costs (Hill et al. 1990); under such scenario, low or medium control entry modes, such as licensing or joint ventures, will be favored (Hill et al. 1990). Furthermore, demand and competitive conditions revolve around Harrigan’s arguments (1985), who predicts that the nature of competition and volatility of markets have direct impact on how organizations decide to carry out their activities. Harrigan (1985) suggests that when future demands levels are unstable or difficult to forecast and markets are highly volatile and competitive, MNCs should reduce the resource commitment by preferring low or medium control entry modes as they allow the strategic flexibility necessary to respond proactively to changes in the market.

Coming to analyze the third group of variables, namely transaction variables, attention can be focused on firm-specific know-knows and tacit knowledge
(Hill et al. 1990). To address this set of variables, it is necessary to recall the crucial assumption underlying the transactions-costs theory: the source of competitive advantage for an MNC in a foreign market is mainly given by firm specific know-hows (Dunning, 1981). As inferable, if the company owns specific know-hows and decides to grant permission to a licensee or local partner to use it within the manufacturing process or just to market the product overseas, it inevitably exposes itself to the dissemination risk and the likelihood that the know-how will be used for different purposes increases exponentially (Hill et al. 1990). Taken into account the aforementioned arguments, it is possible to identify two possible sources of transaction costs: those incurred in searching, selecting, negotiating and monitoring the counterpart that exist due to the bounded rationality, and those arising from the expected loss in case of opportunistic behavior (Hill et al. 1990). Conversely, the establishment of wholly-owned subsidiary eliminates or at least reduces significantly the dissemination risk and, if the reduction of the outlined transaction costs is significantly greater than the bureaucratic costs of establishing and running a channel to transfer know-hows, the wholly-owned subsidiary would make more sense (Hill et al. 1990). Furthermore, Hill et al. (1990) have suggested that the key variable in the topic should be seen more in the quasi-rent that can be earned as a result of the MNC proprietary know-hows rather than in their intrinsic specificity. Moreover, the preference towards wholly-owned subsidiary is even more enhanced if the tacit nature of know-hows is taken into consideration. Indeed, the transfer of tacit know-hows and informal routines is easier if it occurs among intra-organizations because of the ability of the MNC to use its own human capital and existing organizational routines to tackle the transfer issue (Hill et al. 1990).

The holistic framework proposed by Hill et al. (1990) has allowed to enrich the theoretical explanations by offering a real and practical insight into the “pros” and “cons” of different modes of entry; however, the framework confirms that when dealing with which mode of entry is more suitable, it is not possible to limit the reasoning to transactions explanations but it is crucial to englobe as well the strategic posture of the firm (Hill et al. 1990).
1.4.1 Different types of entry modes

Each organization has different organizational requirements and needs, which generate different responses in terms of physical distance and of control that in turn influence the choice of the entry mode (Malhotra & Hinings 2010). This argument can be as well a further reason in explaining why internationalization process differs among organizations. Malhotra and Hinings (2010) have conducted a particular study in which they clustered organizations in three groups, mass production, disaggregated production and project-based production, in the attempt to figure out a common modal path for each group. From their findings, it emerged that mass production tends to follow a slow and gradual process of selection of the entry modes when the physical distance is not an urgency; the disaggregated production tends to adopt contractual modes, whereas the project-based organization adopts bounded-commitment paths (Malhotra & Hinings 2010). Such diversity of entry modes is justified by the different need in terms of resources commitment that reflects as well the overall strategic goals (Malhotra & Hinings 2010). Indeed, the mass production, in case the physical distance is not a necessity, tends to follow a gradual process coherent with what has been outlined in the U-model (Malhotra & Hinings 2010). Conversely, in the disaggregated production there is a different approach towards resource commitment as it is rare to incur in capital intensive elements in the foreign market (Malhotra & Hinings 2010). The initial deployment of resources occurs mainly in intangible assets as its goal is to create brand reputation, quality control systems, operating policies and reservation systems (Malhotra & Hinings 2010). In a later phase, the firms within this group are able to spread the relative benefits throughout a longer time horizon through service contracts or franchising (Malhotra & Hinings 2010). The third group of organizations, instead, has a bounded commitment, as it experiences fluctuations due to the scale and flow of projects (Malhotra & Hinings 2010). This model has offered significant contributions as it prescribes strategic choices on the grounds of the type of organization and secondly it entails an ongoing assessment of organizational characteristics, foreign market factors and relative uncertainty (Malhotra & Hinings 2010).

As such, it is possible to draw a connection between this model and the
entrepreneur perspective. The latter, indeed, points out the different modes of entry can be explained according to the type of entrepreneurs, *technical, market* or *structural*, identified by Andersson (2000). The technical entrepreneur will adopt a reactive response to the moves of other actors, deciding to rely on resource-lean alternatives such as licensing (Andersson 2000); furthermore, the market entrepreneur will choose a mode of entry that will require more resources as for this entrepreneur the market choice is vital (Andersson 2000); whereas the structural entrepreneur adopts entry modes that fit with the overall intent of restructuring the industry, favoring mainly acquisitions as its focus is on the competitive situation in the playing arena (Andersson 2000)

Insofar, it has been proposed an analysis about the factors that might influence different modes of entry according to the entrepreneur and organizational perspective. However, at this stage, it is important to better specify the range of opportunities firms can choose from.

Modes of entry tend to be classified by using a notion that revolves around the tradability of products and the effective investment in foreign markets (Grant 2013). Therefore, on one extreme it is possible to see indirect and direct exports as mainly transactional modes, whereas strategic alliances, joint ventures and FDIs are a result of a direct commitment in overseas competitive arenas. (Figure 1.4)

![Figure 1.4: Framework of entry modes (Robert M. Grant 2013)](image)
The basic form of entry modes with low financial requirement and a little presence in foreign market is made up by indirect exports through which the companies retain the 100% of operativity in the home country and appoint intermediaries to sell abroad on their behalf (Grant 2013). With indirect exports, the presence of the company is minimal in foreign markets. In this group, it is possible to have:

- **The Buyer:** it is usually an employee of a foreign company, interested in buying a country-specific product with the intention to resell it abroad (Grant 2013);
- **The broker:** in this case the company tries to join forces with an intermediary that can act as bridge between the company and local customers, as it knows well both the market and its clients and also provides support in the negotiation phase (Grant 2013);
- **Export Management Company:** commercial firms operating in international markets, giving support to a group of firms offering complementary products and not directly competing with each other (Grant 2013); it simply helps firms within the group during the export process (Johnson et al. 2008);
- **Trading Companies:** big companies, specialized in trading that buy from one company and resell abroad (Grant 2013);
- **Consortium:** it acts as a bridge between SMEs, which sell the products to the consortium that, in turn, will export overseas (Grant 2013);
- **Piggyback:** it is a contract between two companies, a smaller one that acts as rider and sells its products through a bigger company, acting as a carrier (Johnson et al. 2008).

The direct exports constitute a particular group in which the company realizes the importance to establish, even though in a limited measure, its presence in foreign markets in order to better understand them, but it still retains its fully operativity in the home country (Grant 2013). The main entry modes within this group are:

- **Commercial Network:** home-based company decides to rely on part of its working force or on independent agents in the foreign market linked to the company through long-term arrangements, who sell or promote products, provide after sale assistance or negotiate with potential customers (Grant
Internationalization decisions in the retailing sector: Walmart in South Korea

2013);

- **Commercial Branch**: being a firm-owned intermediary, the entrance in foreign market is simply commercial. The aim is to create commercial ties, to study the market, to solve institutional problems or to coordinate sellers (Grant 2013);

- **Logistic Centre**: it coordinates exports in foreign market acting as a distribution channel;

- **E-commerce**: the sale in foreign country occurs through an online platform, e.g. Amazon (Grant 2013)

Among strategic alliances, it is noteworthy to mention licensing, cross-licensing, franchising and joint ventures. Through licensing, the licensor grants the licensee to use intangible property for a period of time in exchange of a royalty fee (Marino 2016); a slightly different variant is the cross-licensing in which the royalty fee is replaced by granting access to an intangible property of the counterpart (Marino 2016). Franchising, instead, is mainly typical among service firms and is considered as a complex form of licensing in which the franchisor does not only grant the use of intangible property but obliges the franchisee to abide to strict rules (Marino 2016). On the top extreme of strategic alliances, joint ventures stand out in which a firm is jointly owned by two or more firms.

The modes of entry requiring an equity investment in a foreign market lead firms to carefully consider two strategically important aspects. Firstly, it may opt to establish operational activities from scratch (Greenfield investment) or to acquire equity shares in an already existing firm or to purchase the existing facilities (Acquisitions or brownfield investment respectively) (Dikova & Witteloostuijn, 2007). Furthermore, an MNC has to decide whether to enter a foreign country on its own (wholly-owned subsidiary) or to collaborate with a local partner (shared-ownership subsidiary). Dikova and Witteloostuijn (2007) have labelled the former decision as the establishment of the mode of entry, whereas the latter as an entry mode decision.

Greenfield investments and Acquisitions together are often referred as Foreign Direct Investments. The surge in FDIs over the last 25 years has been one of the peculiar features of globalization (Balsvik & Haller 2011). From several
Empirical studies on FDIs, researchers have noted that this form of investments create huge potential in terms of diffusion of latest technology and organizational knowledge as well as an increase in competition in the host countries (Caves 1974). Furthermore, the possibility to generate spillovers depends mainly on the capacity of domestic firms to absorb them and on the ability of multinationals to generate them (Balsvik & Haller 2011). A greenfield investment adds production capacity, whereas an acquisition impacts on the ownership and control of existing assets (Zahra et al. 2000). In both cases, due to the high involvement in foreign markets, FDIs have a profound impact on firms’ performance. The extent to which performance is affected depends by the amount of learning generated and internalized both in the case of wholly-owned subsidiary or of acquisitions (Zahra et al. 2000).

The decision between green-field investments and acquisitions is mainly driven by carrying out an analysis of benefits and risks associated with each one. Although acquisitions allow an MNC to establish its presence in a shorter period of time and to achieve greater market power, they, however, might encounter some post-acquisitions difficulties, namely failures in integration due to differences in cultures and management styles, resistance to the acquirer’s directives, different views in terms of lay-offs (Nadolska & Barkema 2007). Conversely, greenfield investments present the golden opportunity to preserve and replicate the corporate culture, but on the flip side they require more time to build local partnerships and fully integrate in foreign markets (Dikova & Witteloostuijn 2007). As inferable, in case of a wholly-owned subsidiary, even though it is recognized that an MNC experiences high degree of control and freedom over strategic decisions compared to the case of shared owned subsidiaries, it is noteworthy to point out that the process of recovering from liability of foreignness may be somewhat hostile without the help of local partner (Dikova & Witteloostuijn 2007).

Broadly speaking, studies rooted in the transaction costs literature have revealed that greenfield investments are riskier than acquisitions (Dikova & Witteloostuijn 2007). The reasons are quite intuitive as acquiring an existing firm implies to incorporate a team of managers that are familiar with the local market conditions, resulting in a reduction of uncertainty (Dikova &
Witteloostuijn 2007). Caves postulated (1996) that opting for an acquisition implies to accept a lower return in exchange for a more predictable and certain outcome (Dikova & Witteloostuijn 2007). On the flip side of the coin, though, a greenfield investment requires building everything from scratch by combining a mix of assets that have not been previously tested to be effective and successful in the foreign market at issue (Dikova & Witteloostuijn, 2007).

Equally important is to point out the effects that FDIs have both in the foreign and home country. Surely, host country firms will experience the benefits from spillovers resulting from the endowment of subsidiaries with skilled entrepreneurs and productive knowledge (Balsvik & Haller 2011). Additionally, foreign presence is likely to increase competition in host country and this rise is likely to be stronger in the first years following the entry (Balsvik & Haller 2011). By bringing in superior technology and organizational skills, the host country is likely to experience an increase in its stock of knowledge and technology (Balsvik & Haller 2011). Furthermore, it is noteworthy to analyze the effect on existing competition. The entrance of efficient firms will force incumbents both to reduce inefficiencies and to adopt new technologies quicker, leading to an overall increase in productivity of the host country (Balsvik & Haller 2011). Moreover, as greenfield investments add new production capacity, the likely outcome on host country is an increase in competition, whereas, in case of an acquisition, at least in the short run competition remains stable, as production capacity remains unchanged (Balsvik & Haller 2011). This divergence has profound implications both in the output and input markets. Considering the output markets, an increase in competition, typical in case of a greenfield investment, will result in a reduction of output prices (Balsvik & Haller 2011); whereas, in case of acquisitions, unless the acquired firm ends up in a collusive agreement, no changes in output will be reported (Balsvik & Haller 2011). Conversely, in the input markets, greenfield investments will tend to have a detrimental effect on the productivity of domestic plants, as they will be likely to hire labor force locally by granting higher wages, that, in turn, will attract key employees from domestic country (Balsvik & Haller 2011).

From the mentioned analysis of mode of entry, firms have a wide range from
which to choose. It is paramount to outline that the choice depends both on the strategic goals that the company wants to pursue overseas and by the intrinsic features of foreign markets.

1.5 Organizational Models

During the internationalization process managers face a further trade-off between local adaptiveness and global integration. This trade-off has been addressed by two outstanding contributions: the former from Doz and Prahalad (1984) and the latter from Bartlett and Ghoshal (1987).

Doz and Prahalad (1984) have suggested that executives during the international expansion face a continuous balance between the *economic imperative*, which includes the effect of global competition that forces an MNC to exit national boundaries, the entrance in a foreign market, the development of a global strategy and the rationalization of global operations through central control and tight coordination (Melin 1992); and the *political imperative*, which consists of incorporating host government demands within the operational activities (Melin 1992). Their framework resembles to a matrix made up by two axes: *sub-process changes* and *collection of management tools* (Melin 1992). While the former includes a cognitive perspective, strategic priorities and power allocation (Melin 1992), management tools, instead, include *data management tools* to support critical decisions, *managers’ tools* to set the rules of the game affecting the decisions and expectations of executives, and *conflict resolution tools* used to address the trade-off between global integration and local responsiveness (Melin 1992).

Bartlett and Ghoshal (1987) have instead focused on how large cross borders firms organize their activities (Figure 1.5a). The cornerstone of their contribution is more related to firms’ capabilities rather than its structural form (Melin 1992). Their study has been based on analyzing three distinct organizations, each typical of Europe, US and Japan with different structural configurations, administrative processes and management mentalities (Melin 1992). The first type of organization finds its fit within the management norms of European firms (Grant 2013). This model has been labelled as *decentralized*
federation of assets and responsibilities as each unit can respond to local needs (Bartlett & Ghoshal 1987). The second type is more in line with the managerial practices of US firms and is labelled as the coordinated federation in which the parent company transfers knowledge and expertise to foreign markets, while subsidiaries tend to be more autonomous in operations and marketing (Grant 2013). The third type, instead, is defined as centralized hub, most common among Japanese firms in which most assets and decisions are entirely centralized (Melin 1992). It follows that subsidiaries are highly dependent on the parent company and tightly controlled (Melin 1992). As such, Bartlett and Ghoshal (1987) contribution seems to confirm and complement the ancient notions of the global enterprises, namely ethnocentric, polycentric and geocentric respectively, identified by Perlmutter (Melin 1992).

![Organizational Models according to Bartlett & Ghoshal 1990 (Robert M. Grant 2013)](image)

Figure 1.5a: Organizational Models according to Bartlett & Ghoshal 1990 (Robert M. Grant 2013)

Each model identified by Bartlett and Ghoshal (1987) nowadays has assumed a different terminology (Figure 1.5b): multinational or multi-domestic (the decentralized federation), international model or home replication strategy (coordinated federation) and global organization (centralized hub) (Melin 1992). However, Bartlett and Ghoshal (1987) have identified as well a further model, known as transnational model, which better suits with the increasing complexity in global environments (Melin 1992).
The international model is characterized by low levels of local responsiveness and low need of global integration (Marino 2016). Firms, adopting the home replication strategy, simply take products produced domestically and sell abroad with minimal customization efforts (Marino 2016). Strategically speaking, a single strategy is adopted at the corporate level and then transmitted directly to subsidiaries (Grant 2013). By replicating home functions in each national subsidiary, the firm loses flexibility in actively responding to external environment changes (Grant 2013).

The multi-domestic model revolves around the need of attaining a sustainable local market presence (Dikova & Witteloostuijn, 2007). This strategy is suitable when there are substantial differences in terms of culture and preferences, which force to customize products and services in order to boost profitability and address the needs of local customers (Marino 2016). The customization of products is realized because of the low degree control, enabling products to vary across national markets (Dikova & Witteloostuijn, 2007). As a result, each subsidiary will have its own marketing and manufacturing department (Marino 2016). Moreover, each subsidiary remains autonomous and each division receives core competences from the headquarter resulting in a decentralization of activities (Grant 2013). This strategy allows to enrich strategic flexibility by exploiting the advantages of each nation with low organizational costs; however, because of the limited communication, there is little or null sharing of best practices (Grant 2013). Conversely, the global model seeks to increase profitability and growth by reaping the cost reductions.
from economies of scale, learning effects and location economies (Marino, 2016). It is often adopted when the firm has a high need for global integration and little urgency to respond locally. The overall strategic purpose is to pursue a low-cost strategy by offering products and services at a lower price with respect to competitors (Grant 2013). As a result, each decision is strictly centralized, no activities are transferred to local subsidiaries and a dynamic network of relationship is established (Grant 2013). The fourth model, known as transnational one, has been introduced to tackle the increasing complexity in global markets and it is a suitable response when firms have to achieve both global integration and address local needs (Marino 2016). As inferable, each subsidiary maintains a degree of autonomy but there is a continuous communication with the headquarters and many transfers take place among other subsidiaries (Grant 2013). This allows the headquarter to spot and catch best practices and spread them over the other subsidiaries such that they are able to manage and keep in equilibrium the business portfolio (Grant 2013). Firms, adopting the transnational model, seeks to achieve efficiency through global competitiveness, but at the same time local responsiveness enables to gain flexibility and to develop innovations, deemed crucial for the corporate survival (Melin 1992). Nevertheless, it follows that the transnational model acts as a network in which subsidiaries have specialized and differentiated roles, increasing the likelihood of internal fragmentation and dissipation (Melin 1992). Strictly linked to the potential drawbacks of the model, Forsgren (1992) has outlined the risk of overlooking its limitations and costs as a result of the focus on integration (Melin 1992).
Chapter 2: The Internationalization of the retailing sector

2.1 Market characteristics and Future outlooks

In recent years the retailing sector has experienced a drastic change, extended as well to the customers served (Deloitte 2017). This trend has been also enhanced by the new economic era that we are living nowadays, mainly customer-driven, fueled by the spread of digital devices both handheld or wearable that are shaping a new type of customer, whose purchase decisions revolve around convenience, authenticity and creativity (Deloitte 2017).

Retailing trends in the last years are orientated to understand better the “art and science of catering the customers” so as to better address their needs (Deloitte 2017). The major areas of change concern customers’ preferences, retailing formats and technological advancements, which offer newly seamless and consistent experiences both in store and out-store (Deloitte 2017). As nowadays we are a living in a social-media economy, retailers have realized that technology can no longer be regarded as point of difference, but it has become a point of parity that each actor in the market has to possess to survive in increasingly competitive markets. A further challenge arises from the new type of customers, who want to be surprised and delighted during their shopping experiences, and consequently retailers are conveying their efforts to design fresh experiences, enhanced by technology, so as to master customers’ engagement and loyalty (Deloitte 2017).

In recent years customers have shifted their focus, paying less attention to the number of things possessed or owned and focusing more on the search of new experiences and on their possessions as tools to embellish their everyday lives (Deloitte 2017). As a result, nowadays it is no longer about consumption of goods, but consumption of experiences, highlighting a switch from the mass-produced goods to the “bespoke” (Deloitte 2017). The change in the type of customers is mainly attributable to the increasing awareness that our purchases contribute to define ourselves as customers in the attempt to be in line with others’ expectations and with what the latest trends prescribe (Deloitte 2017). The acknowledged interest in personalization is not new to marketers, but what
is new is the significant relevance that has assumed because of social media (Deloitte 2017). Social media have become a powerful tool, capable of both shrinking the distance among ourselves and making ourselves closer to the loved celebrities and brands. This desire has been first observed among tourism sector, but nowadays it is shaping as well the retailing arena. Retailers that are able to address their customers through experiences, capable of furthering their personal brands, will surely experience an increase in loyalty of their customers’ base (Deloitte 2017).

Noteworthy to mention is that few decades ago it was somewhat easy to define who a retailer is, as the one buying and selling goods either through stores or online (Deloitte 2017). However, because of the rise of sharing economy and of further factors, it is always more difficult to define the scope of retailers. Additionally, the sector has been experiencing an increasing fragmentation mainly imputable to the rise of non-traditional retailers and “retailization”, filling the market with new models to serve customers (Deloitte 2017). The low barriers to entry, the high volatility, the explosive and disruptive new business models are posing retailers the challenge to reinvent themselves so as to survive in the newly competitive arena (Deloitte 2017). The key to remain competitive lies in the relevancy and exponential technology. The former indicates the ability of retailers to meet the on-demand mindset of the modern customers, whereas the latter refers to exploitation of what few decades ago was defined as \textit{futuristic technology} (Deloitte 2017). Currently, we live in an era in which it is no longer a surprise to observe robotics, sensors and artificial intelligence, widely adopted by the most innovative retailers who have realized their potential both in enhancing the interactions with customers and in shaping the way their work is done (Deloitte 2017).

Nowadays, more than before, retailers have to come to terms with the external environment as well, which still remains challenging as a result of old and new factors such as slower economic growth, aversion towards globalization, deflation and high debt levels in emerging countries (Deloitte 2017).

Leading developed countries are now experiencing an increasing aversion towards the free trade and cross-border migration (Deloitte 2017). As inferable,
workers suffering from stagnant wages or loss of jobs are blaming globalization rather than imbalances in the labor market (Deloitte 2017). However, globalization has brought beneficial advantages to retailers and customers as freer trade reduces prices and boosts consumer purchasing power (Deloitte 2017). Furthermore, immigration allows to boost labor supply, reducing the average age of population and consequently it offsets the imbalances in demographic trends (Deloitte 2017). As such, it is not surprising that a backlash against globalization or restrictions on free trade will impact retailers’ performance negatively. Despite aggressive expansive monetary policies, another phenomenon observed in developed countries is the low inflation, which persists, leading to declines in price. The historically low inflation is attributable to the excess capacity, weak demand and temporary reduction in commodity prices (Deloitte 2017). This trend is somewhat worrying for retailers as intense price competition pulls them to seek new differentiating factors to regain the pricing power (Deloitte 2017). However, low commodity prices, deriving from the massive increase in the shale oil production in US, enriched by weak global demand, on one side are able to boost retailers’ sale performance for commodity consuming countries but, on the flip side, create a more challenging environment for commodity producing countries, making necessary to come up with the diversification of the economic output (Deloitte 2017). Additionally, economic growth has been somewhat small compared to the past. This is imputable to productivity and demographics (Deloitte 2017). Productivity, meaning output per hour worked, has come to a standstill, which reflects modest growth of investment and consequently a slowdown in the implementation of innovations (Deloitte 2017). Conversely, demographics refer to the deceleration, in some countries, and to the decline, in others, of the working age population, resulting in lower economic growth (Deloitte 2017). Given the economic outlooks, the major markets for retailers to operate remain US, United Kingdom, the Eurozone, China and Japan. The US economy is moving at a moderate pace and the labor market is likely to reflect the full employment, favored by an increase of wages mainly at the lower end of the income scale (Deloitte 2017). One of the most prosperous sector still remains the consumer one, being as well a driver for economic growth. The rising in employment, the accelerated wages, low
energy prices, increased consumer credit availability have pulled improvement in the housing market, which in turn offers opportunities for retailers in terms of purchases of home-related products (Deloitte 2017). Despite the favorable environment, with the new administration, however, it seems that there is the spectrum of protectionist actions that may compromise retailers’ future growth (Deloitte 2017).

On the contrary, the United Kingdom is facing the consequences of the Brexit vote. The vote to leave the European Union has had dramatic repercussions on the British economy in terms of weakness of the pound sterling, reduction of inbound investments and rise in uncertainty (Deloitte 2017). A weak pound can favor exports but may suppress imports, and retailers can be profoundly challenged by Brexit, leading some of them to pass on customers the higher costs of goods, while inducing others to absorb them within their supply chain (Deloitte 2017).

The Eurozone, however, does not seem to be as attractive as it was in the past. Even though the retailing sector remains on a steady and moderate growth, there is a constant focus on monetary policy, which has led to overlook regulatory or fiscal policies, crucial in terms of employment (Deloitte 2017). Experts fear that the persistent unemployment may undermine the support of European institutions, leading to a period of recession and higher market volatility (Deloitte 2017).

Surprisingly, Chinese economy has experienced a slowdown and a further deceleration is expected in the coming years (Deloitte 2017). Even though consumer spending can be a driver for economic growth in the following years, there are two potential factors capable of threatening growth. Firstly, a high level of private debt accumulated to finance excessive investment represents a serious threat for Chinese banks, which become poorly capitalized, incapable of supporting businesses (Deloitte 2017). Secondly, the purchasing power of consumer is shrunk as a result of continuous capital outflows that are exerting downward trends on the domestic currency (Deloitte 2017). Japanese economy, on the other hand, is facing slow economic growth, mainly imputable to its demographics (Deloitte 2017). Despite growing at the same
pace of US, the number of workers seems to have actually declined. This is a reason of concern among retailers that have reconsidered Japan as a cash-cow in which growth can be gained either in investing outside Japan or in conquering additional market share (Deloitte 2017). Moreover, retailers are also forced to struggle for the lowest possible costs as a result of the persistent deflation (Deloitte 2017).

Willing to consider an overall framework of key actors within the retailing sector, figure 2.1 depicts the top 10 retailers according to the financial analysis of their performance for fiscal years ended through June 2016, carried out by Deloitte Touche Tohmatsu in 2017. The four largest worldwide retailers maintained their positions, but divestures, exchange rates volatility and acquisitions have profoundly impacted the rest of the hit (Deloitte 2017). Walmart continues to be the first largest retailer in the world, even though it experienced a decline in sales due to unfavorable currency exchange rates fluctuations. Additionally, Amazon joined the top 10 leaders, as a result of the implementation of a series of innovative services (Deloitte 2017). On an aggregate basis, in 2015 retailers’ revenues accounted for more than 4.3 trillion dollars, which represent on average 17.2 $ billion for each company with a net profit margin (PM) of 3.0% and return on asset (ROA) equal to 4.6% (Deloitte 2017). These results are even more outstanding, given the turbulent and uncertain economic and political environment in which retailers have operated. Indeed, fiscal year 2015 saw the appreciation of the US dollar, the decline of oil prices and the growing backlash against globalization (Deloitte 2017).

![Figure 2.1: Analysis of financial performance and operations for fiscal year 2016 of the major retailers (Deloitte Touche Tohmatsu Limited. Global Powers of Retailing 2017)](image-url)
2.2 The international expansion of retailing firms

The retailing sector has experienced a pronounced expansion of cross border activities over the past few decades (Gripsurd & Benito 2004). There is overall consensus to distinguish retailers from manufactures as the latter ones tend to enter foreign markets to exploit location advantages, whereas the former ones are mainly driven by demand factors (Gripsurd & Benito 2004). Nowadays an increasing number of retailing firms have started an internationalization process, as it is not only an opportunity for future growth, but also it becomes an urgency when domestic markets become fiercely competitive (Douglas & Craig 1992). This trend, though, presents different speeds among countries; indeed, retailing firms in Europe have witnessed an accelerated process compared to their counterparts in USA (Vida & Fairhurst 1998). The starting point of their expansion results from having realized that it is no longer viable to grow only in domestic markets at a moderate pace, but it becomes a necessity to exploit benefits of foreign markets, known as pull factors, in terms of economies of scale and scope arising from the management of worldwide activities (Gripsurd & Benito 2004). Furthermore, other factors affecting the decision to expand beyond national boundaries include saturation of domestic markets, vertically integrated distribution channels, increased activity of M&As, economic and demographic trends, generally known as push factors (Gripsurd & Benito 2004). In order to have a better understanding of retailing internationalization, it is paramount to recall that the internationalization process is always associated with the idea of being an incremental or random change, which leads to modify the internal structures and cognitive systems (Vida & Fairhurst 1998).

Vida and Fairhurst (1998) have proposed a model, which is descriptive in nature, and postulates that the decisions to expand abroad retailing activities derive from a range of promotors and inhibitors, triggered by the interaction between firms and decision maker’s characteristics alongside the external environment (Figure 2.2). Strategic decisions concerning the market selection, the entry mode and retailing management operations will impact on the evaluation of the firm’s performance, which in turn will shape the model antecedents and indirectly affect the balance of promoting and inhibiting.
factors in the following phases (Vida & Fairhurst 1998).

![Diagram of factors influencing the retailing internationalization process]

**Figure 2.2: A model of factors influencing the retailing internationalization process**

(Irena Vida & Ann Fairhurst, 1998)

The model is also useful to forecast the relative increase or decrease in the involvement of retailing activities or to predict a potential withdrawal from foreign markets (Vida & Fairhurst 1998). The levers involved in the theoretical framework are labeled as antecedents, process and outcomes, whose interaction sets the foundations for the intrinsic dynamism through which the decisions of which markets to enter and with which modes, combined with the retailing management operations and consequent performance, will shape the model’s antecedents, influencing the firm’s and decision maker’s characteristics in the next cycle (Vida & Fairhurst 1998).

The antecedents result from the analysis of the external environment and of two internal variables. The external environment, broadly considered in terms of market opportunities, changing consumer environments, trends in both consumer markets and retailing industry, has a profound impact on retailers’ internationalization, as it can act as detrimental or propulsive force in discouraging or triggering the international expansion (Vida & Fairhurst 1998). Noteworthy to outline is that decision makers tend to be guided more by a subjective evaluation of the external environment rather than by an objective knowledge of the world (Vida & Fairhurst 1998). The analysis of the environment surrounding the firm should be able also to spot those...
idiosyncrasies of foreign markets in terms of cultural, political and economic factors, so as to grasp the differences among domestic and international markets and respond accordingly (Vida & Fairhurst 1998). However, among the antecedents the model considers as well two internal variables, known as firm and management characteristics regarded as the driving forces of the retailing internationalization process. Indeed, the dynamism and quality of the management will determine first the beginning and in a later stage, if there are proper conditions, the continuation of firms’ expansion, and lastly its performance (Vida & Fairhurst 1998). The model identifies knowledge, experience, perceptions and attitudes as the main decision makers’ characteristics. Firstly, knowledge revolves around management’s background, its ability to handle international operations and its knowledge of the retailing operations (Vida & Fairhurst 1998); secondly experience is more related to the decision makers’ involvement in the international business and their exposure to foreign transactions (Vida & Fairhurst 1998); whereas perceptions and attitudes are centered around the idea of risk, costs and potential returns from the internal expansion as well as from the favorable conditions in the international consumers’ markets (Vida & Fairhurst 1998). Moreover, it is crucial to mention Treadgold’s contribution (1990) who has put forward additional factors that impact on the decision makers’ characteristics, namely the growing professionalism of the management, its mobility and the accumulated international experience. Nevertheless, Vida and Fairhurst (1998) pointed out that it cannot be ruled out the tendency of managers to adopt ethnocentric attitudes that, if combined with a lack of experience, may result in a reactive stance which, in turn, will lead to overlook possible obstacles within the process.

An additional internal variable considered in the model among the antecedents is the firms’ characteristics but is intentionally separated from the decision makers’ characteristics in order to outline that the willingness of the decision makers or managers to start an international expansion cannot be enough, if the availability of means to implement the process is limited (Vida & Fairhurst 1998). Among firms’ characteristics equally important to consider are the differential advantages, in terms of uniqueness of products and services, that
Internationalization decisions in the retailing sector: Walmart in South Korea

may incentivize the initiation and continuation of the process in foreign markets (Vida & Fairhurst 1998). These differential advantages tend to be more successful if they are associated with new profitable formats (Vida & Fairhurst 1998). Unique retailing differential advantages are paramount as they can offset the lack of international experience and of knowledge as well as the shortage of resources allocated, acting as potential promotors both in initial and subsequent stages of the retailing internationalization (Vida & Fairhurst 1998).

The second lever of the model, namely process, has highlighted the importance to determine the potential promotors and inhibitors, which derive from the analysis of the internal characteristics and external environment (Vida & Fairhurst 1998). The determination of the promotors and inhibitors is crucial as they can act as motivating factors or barriers with regards to the retailing involvement in foreign markets (Vida & Fairhurst 1998). The framework entails a continuous interplay of these factors, influencing in turn the performance of retailing operations and subsequent management and firms’ characteristics (Vida & Fairhurst 1998). As such, at the end of each stage the firm will re-assess whether there are the conditions to continue, to increase, to decrease its international presence or simply withdraw from foreign markets (Vida & Fairhurst 1998). As inferable, there is no guarantee of continuance of the retailing internationalization and the withdrawal can occur at any stage, still being more likely in the initial phases (Vida & Fairhurst 1998). The model, however, introduces an alternative option that was not considered by previous research, related to the possibility for the firm to maintain a steady level of international expansion over time, which, however, raises concerns and doubts about the internationalization of retailing as an evolutionary or incremental process for all firms (Vida & Fairhurst 1998).

At this stage, when a retailing firm decides to internationalize its activities, it is also crucial to carefully choose the appropriate mode of entry as it sets the basis for the future success in the foreign market, which is fully addressed in the third lever of the model, namely the outcomes (Vida & Fairhurst 1998). Dominant literature has classified entry modes in high/low control and risk, whereas the behavioral frameworks suggests that the selection of an entry mode is mainly driven by firm’s experimental knowledge and market
commitment, predicting that as the managerial experience increases, also the mode of the entry will be characterized by a higher level of commitment in foreign markets (Vida & Fairhurst 1998).

The model of Vida and Fairhurst, instead, suggests that the management tends to be prone to adopt a less risky approach by choosing less demanding modes of entry particularly in the initial stages so as to offset the potential lack of knowledge and experience (Vida & Fairhurst 1998). An additional decision, common to all firms operating in different sectors, is related to the dispersion of operational activities among markets. It has been widely acknowledged that firms first enter markets that are culturally similar to the domestic one and as they gain more international experience, companies tend to gradually enter markets with a higher cultural and physical distance (Vida & Fairhurst 1998). This stylized fact has been incorporated into the mentioned model, resulting in the adoption of a contingency approach (Vida & Fairhurst 1998). In the initial stages, due to the inhibiting factors deriving from the internal environment, firms will tend to enter similar markets, then in the following phases decisions become function of the external environment and cautious planning, which, being positioned outside the outlined model, will lead a retailer to enter international markets if and only if there are demand for products or services and enough market opportunities to exploit (Vida & Fairhurst 1998).

2.3 Retailers’ modes of entry

Retailers’ mode of entry strategy refers to the decision-making process adopted so as to select the appropriate mode of entry for a particular foreign market (Doherty 1999). At this stage, it seems appropriate to illustrate two main stream theories that help to understand why retailers tend to prefer a certain mode of entry. These theories revolve around the notion of knowledge transfer and information asymmetry, namely internationalization and agency theories, which will be enriched by taking into account as well an institutional perspective (Doherty 1999).

Internationalization and agency theory provide their contribution mainly in explaining firms’ capital structure, employees’ incentives and control (Doherty
1999). However, researchers and experts of the field strongly recommend to extend their application to more complex contexts such as the one related to the growing internationalization of firms (Doherty 1999). The main similarity between the two theories is the incorporation of behavioral assumptions, such as the bounded rationality, potential opportunism and goal conflict (Doherty 1999). Furthermore, the aforementioned theories stress the importance of achieving profit maximization through intermediate product markets, that is to say, through knowledge, goodwill and technology (Doherty 1999). As inferable, given retailing formats and managerial technology in how retailers structure distribution, merchandise and financial performance, it seems that retailers display the highest concern for asset intangibility when it comes to select an appropriate mode of entry (Doherty 1999). As previously mentioned, both theories revolve around the concept of knowledge transfer and information asymmetry, common to nearly all sectors, but emphasized even more in the retailing sector where the level of asset intangibility is significant (Doherty 1999). Despite focusing on the same issues, the two theories adopt different perspectives in terms of information asymmetry; while agency theory stresses out that information can be acquired through monitoring; the internationalization theory, however, points out that it is somewhat impossible to reduce information asymmetry, which, in turn, may lead to the failure of the economic exchange (Kochar 1996).

To better understand what shapes the decision-making process and behaviors of retailers, it is paramount to consider as well an institutional standpoint as retailers, starting an internationalization adventure, are exposed to isomorphic pressures both from the external and internal environment that prescribe or proscribe organizational alternatives (Hinings & Greenwood 1988).

2.3.1 Internationalization and Agency theory

Alexander (1997) has defined the internationalization of retailing as “the transfer of retail management technology or the establishment of international trading relationships which bring to a retail organization a level of international integration which establishes the retailer within the international environment in such a way as to transcend regulatory, economic, social cultural and retail structural boundaries” (Doherty 1999). From this
definition, it is possible to grasp different factors influencing retailers’ mode of entry decisions that can be classified in three main groups: domestic characteristics, host market characteristics and nature of the internationalizing of the retailing operations (Doherty 1999), (Figure 2.3).

![Figure 2.3: Factors influencing the entry mode strategy of international retailers](Nicholas Alexander, 1997 retrieved from Anne Marie Doherty, 1999)

A key issue among retailing internationalization is related to asset intangibility, such as managerial technology and retailing formats (Doherty 1999). These elements tend to be extremely difficult to protect and this difficulty is even more enhanced by the geographic distance during the internationalization process (Doherty 1999). From the significant level of asset intangibility and focus on managerial technology, an additional factor is supposed to be considered in the mode of entry decisions and is related to the ease or complexity of information transferring process (Doherty 1999). Consequently, the transfer of knowledge raises concerns in terms of asymmetry of information. As inferable, the combination of the complex regulatory, social, economic, cultural and retailing structural boundaries with the aforementioned asset intangibility results either in the accentuation or in the lessening of the asymmetry information problem, making more difficult or easier the information transfer process (Doherty 1999), (Figure 2.4).

![Figure 2.4: Factors influencing information asymmetry in international retailing markets (Anne Marie Doherty, 1999)
The figure depicts and predicts the myriad forms through which information asymmetry can manifest itself; it can arise in case of extremely different cultural and human resources management practices or in case of divergent regulations in terms of employment law or from the inability of the management to assess the overall risk associated with the internationalization venture (Doherty 1999).

Broadly speaking, the internationalization theory postulates that asset intangibility in terms of managerial technology or knowledge can find shelter in people, formulae or physical goods (Doherty 1999). Within the retailing sector, people are the main actors in which technology, knowledge and information are embedded (Doherty 1999). As inferable, the internationalization theory recommends to prefer high cost and control modes of entry (Doherty 1999). The high control and cost entry mode, namely organic growth or acquisitions, depends on two factors essentially. Firstly, it is strictly dependent on how the knowledge is embedded and on the efficiency of the legal system supposed to protect this knowledge (Doherty 1999). In terms of legal protection, it is noteworthy to point out that throughout decades retailers have received little or null protection against the imitation of their formats, which accentuates the information asymmetry problem (Doherty 1999). Therefore, the internationalization theory posits that retailers should always assess the transaction costs involved in marketing intermediate goods, as, if they result to be high because of opportunism or moral hazard, retailers should certainly internationalize by internalizing the sources of their competitive advantage within the organization, through organic growth or merger & acquisitions, rather than searching and negotiation conditions with third parties (Doherty 1999).

The internationalization theory, whose focus is mainly centered around knowledge transfer, has only lightly touched the issue related to the asymmetry of information, simply as a potential cause that may make difficult or easier the transfer of knowledge without deeply covering it (Doherty 1999). To that aim, the agency theory fully addresses the issue, offering also explanations for alternative entry modes. Cantwell (1996) has outlined that as cultural differences become increasingly greater, the consequent costs for monitoring...
employees result to be high as well (Doherty 1999). In such a scenario, the agency theory, with focus on moral hazard and information asymmetry, suggests to use modes of entry such as franchising or licensing (Doherty 1999). The relationship to be built between the franchisor and franchisee or between the licensor and licensee would replicate the one between the principal and the agent (Doherty 1999). The agency theory helps to explain why retailers tend to choose lower control modes of entry, given their emphasis on intellectual property and on monitoring costs in the form of royalty payments (Doherty 1999).

Each theory presented has advanced recommendations on which is the most appropriate mode of entry for retailers, given the issues faced by them. Even though, the asset intangibility and need for legal protection of formats may induce to prefer high control entry modes, many retailing firms, however, tend to adopt lower control and cost entry modes (Doherty 1999). According to Dawson (1994), the reason may lie in the fact that retailers, benefiting from well-established formats onto international arenas, have little to fear as the strength of their format is actually itself a legal protection from imitation (Doherty 1999).

2.3.2 Institutional theory in retailers’ entry decisions

Institutional theory emphasizes the relationship between the external environment and organizations. The external environment is made up by political, cognitive and sociological elements such as laws, norms, habits and cultural belief (Handelman & Arnold 1999). It is stressed out that the external environment affects organizational behavior and firms are pulled to follow and embrace certain behaviors to gain legitimacy (DiMaggio & Powell 1983). The institutional environment exerts its influence not only on the firms’ growth, but also on the intra-firms’ relationships, which shape the decision-making process of organizations both from a macro and micro perspective (Huang & Sternquist 2007). Extending these notions to the international expansion of firms, it is possible to assert that the macro-environment (both home and host country) and micro-environment (the firm itself) play a crucial role in the selection of the appropriate mode of entry (Huang & Sternquist 2007). In the retailing
context, however, the institutional perspective is used to explain the impact of the institutional environments on retailers’ performance and also the recent trend of adopting social responsibility practices in their activities (Huang & Sternquist 2007). The institutional theory addresses as well the phenomena of “mode habitualization” and “model learning”, which are typical approaches used to explain how preferred modes of entry affect and develop subsequent mode choice (Swoboda et al. 2015).

During the international expansion, retailing firms are exposed to two main pressures deriving from the need to gain conformity within the external environment and with the organizational practices of MNCs (Swoboda et al. 2015). Pressures emerge from a regulative, normative and cognitive perspective.

The regulative pillar entails legal and political factors faced by retailers and arise from governments’ policies or laws in terms of land planning, opening hours or pricing, which can result either in aggressive retailers’ expansions or in a slowdown of foreign retailers’ expansion (Huang & Sternquist 2007). To the extent to which countries have sound regulations, institutions determine the strength or weakness of the rule of the law (Meyer 2001). Countries that praise a strong rule of law are able to establish stable structures to reduce uncertainty, resulting in an incentive for retailers, but at the same time they are also able to set stringent restrictions that can act as barriers for retailers’ expansion (Vida et al. 2000). Conversely, if a country has a limited or weak rule of law, it becomes surely a limiting factor in which legal protection is undermined with a high likelihood of political and economic instability, typical of developing and emerging countries, which discourages retailers from setting operational activities (Huang & Sternquist 2007). As inferable, in transitional economies retailers tend to prefer wholly-owned subsidiary if the country has embraced institutional progress, but they tend to prefer joint ventures if host country regulations become more restrictive (Huang & Sternquist 2007). At the same time, considering the home country regulations, Huang and Sternquist (2007) have pointed out that as soon as the national regulations become less favorable, retailers will prefer to expand internationally with modes of entry requiring high resources commitment. This trend has found confirmation and evidence
mainly in the European retailing market, in which European retailers have been among the first to internationalize due to the strong and restrictive domestic regulations (Huang & Sternquist 2007). Conversely, considering US retailers, such as Walmart, whose expansion started only some decades after the European retailers, it depicts that their later internationalization process is the result of the lenient and favorable retailing regulations in US (Huang & Sternquist 2007). It is possible to group the regulative pressures in two forces, namely imposition and inducement (Grewal & Dharwadkar 2002). Imposition implies to strictly follow the law and, being coercive in nature, is the regulative force, which may make a country less attractive if regulations are less favorable, showing preference for low control entry modes of entry (Huang & Sternquist 2007). On the flip side, inducement is the regulative force, which enables to attract foreign firms through tax incentives or lower foreign exchange restrictions (Grewal & Dharwadkar 2002). In such a scenario, low control entry modes of entry will result both in a limitation of potential gains and in a sharing of these benefits among third parties, which increases the likelihood for a retailer to choose high control entry modes (Huang & Sternquist 2007).

The normative pillar depicts moral beliefs and internalized obligations in the attempt to behave appropriately in a social situation in accordance with the others’ expectations and standards of conduct (Scott 1995). The normative pillar shapes retailers’ decision-making by taking into account the cultural and market distance and home society characteristics (Huang & Sternquist 2007). Culturally distant countries may induce retailers to perceive both a high risk associated with the entrance in the foreign market and an intense pressure in serving local customers with habits and traditions different from national customers to which retailers are accustomed (Huang & Sternquist 2007). As inferable, retailers may be discouraged from entering at all very dissimilar markets, showing propensity to adopt high control modes only in case of significantly similar markets (Huang & Sternquist 2007). Furthermore, the second concept of the normative pillar is related to the market distance as the difference between market conditions in the home country and those of foreign markets (Huang & Sternquist 2007).
The market distance is affected by two factors, namely customer preferences and retailing practices, which must be conformable to new consumer environments so as to legitimately fit into local situations (Huang & Sternquist 2007). In case of high market distance, the normative pressure finds its mitigation in the adaptation process, which is long-term and accumulative and pulls retailers to seek local partners through whom they gain isomorphism legitimacy (Huang & Sternquist 2007). Conversely in case of small market distance, adaptation is no longer perceived as a pressure, allowing to enter foreign markets with high control modes (Huang & Sternquist 2007). Also, home country characteristics affect the decisions of retailers on which modes of entry to use. Home country characteristics can be addressed by the Hofstede’s four dimensions, namely power distance, uncertainty avoidance, masculinity or femininity, and individualism or collectivism (Huang & Sternquist 2007). Based on it, if the home country is characterized by a masculinity orientation, low risk avoidance, high power distance and high individualism, retailers will prefer modes of entry, requiring high resource commitment (Huang & Sternquist 2007).

The third pillar of the institutional theory concerns with the cognitive dimension that starts from the basic assumption that past decisions will influence future ones (North 1990). This assumption clearly postulates that the decision-making process is not only socially determined, but also historically located (Huang & Sternquist 2007). This dimension helps to explain why certain retailers such as Body Shop uses the same mode of entry during their international expansion (Huang & Sternquist 2007). Organizations are characterized by inertia and habits, which lead firms to take the same decisions when situations seem to be similar to the previous experience (Huang & Sternquist 2007). The influence of past decisions is often regarded as imprinting, which means that, once a practice has been chosen and implemented in the past, the likelihood to consider alternative options in similar contexts is reduced (Huang & Sternquist 2007). Furthermore, another standpoint useful to analyze the cognitive pillar is to take into consideration that firms do not operate in isolation but, their decisions are indirectly shaped by other organizations (Huang & Sternquist 2007).
This occurs because taking those decisions adopted by other firms increases the legitimacy of organizations and this is particularly true in case of uncertain contexts, which encourage imitation (DiMaggio & Powell 1983). As inferable, firms tend to follow those firms that are perceived to be more legitimate or successful so as to reduce uncertainty (Huang & Sternquist 2007). Moreover, firms can learn from the mistakes of others, resulting in a strategic response to competitors’ activities. As such, the mimetic behavior can take the form of frequency-based and trait-based (Huang & Sternquist 2007). The former refers to the imitation of behaviors adopted by a large number of successful retailers, defined as “follow the leader” syndrome by Lu (2002), whereas the latter indicates the imitation of decisions or practices of other retailers (Huang & Sternquist 2007). As inferable, frequency and success are the main drivers why a retailer uses an entry mode adopted by other retailers when entering similar markets (Huang & Sternquist 2007).

The institutional theory highlights the narrowness of choices available to retailers and how their decisions are affected by both the external and internal institutional environment (Huang & Sternquist 2007). The three dimensions of institutional theory influence the entry mode selection at different levels: at country level the regulative pillar, at culture and business level the normative pillar and at firm level the cognitive pillar (Huang & Sternquist 2007). The analysis implies the importance to identify institutional pressures and to manage them strategically. Furthermore, retailers cannot consider the three dimensions as each independent from the other but as “contributing, interdependent and mutually reinforcing ways” (Scott 2001). Evidence of such interdependence among pillars is given by the behavior of Japanese firms observed by Lu (2002) that tend to adopt mimetic behavior as a result of a normative pressure, intrinsic in their collectivist nature (Huang & Sternquist 2007). Hence, it is important for retailers to consider all three dimensions during the international expansion, but it is up to them to assess which one plays a major contribution than the others (Huang & Sternquist 2007). Among the retailing internationalization, it is paramount to consider as well differences in terms of customers target and industry practices, as such differences may require an adaptation process which will not only have an impact on the merchandise assortment, but also on the formulas and formats (Huang &
Hinfelaar and Kasper (2001) have outlined that “the failed internationalization strategy of one retailer becomes the vehicle for market consolidation for another”. The failure of retailing internationalization can be analyzed by using two perspectives: The Industrial Organization and Organizational Studies (Burt et al. 2002). The former points out that the causes of failure lie in the external environment, whereas the latter assumes a voluntarist standpoint, focusing on internal factors that have determined the failure of the international expansion (Burt et al. 2002).

The Industrial Organization argument postulates that the external environment creates unfavorable conditions and poses several constraints, leaving senior managers with little room for maneuver (Burt et al. 2002). Consequently, given the circumstances beyond executives’ control, there is no strategic alternative but to withdraw from international markets (Burt et al. 2002). This perspective seems to emphasize a deterministic vision of the failed internationalization, which allows to rule out management inefficiency or ineffectiveness among the possible causes (Burt et al. 2002). As a result, managers seem to be the “victims” of the external environment and consequently the role of the management can be disregarded in the attempt to analyze strategic decisions related to the withdrawal from the international arena (Burt et al. 2002). By adopting a deterministic perspective, it is possible to list a wide range of causes of decline and crisis (Burt et al. 2002). Among them, it is necessary to outline that brand switching, changes in customer preferences and cyclical decline in demand create turbulent and unstable demand structures (Burt et al. 2002).

From the causes pointed out, it seems that the organizational failure onto international arenas is part of a natural and objective process within the efficient operation of markets (Balderston 1972). Strictly linked to that, the life cycle theory comes in handy, arguing that there are inexorable and irreversible movements that track the path towards the equilibrium of death, common to family, firms, nations and civilization (Boulding 1950). This cycle, which is “reminiscent of the rise and fall of populations on the road of extinction”
(Boulding 1950), is particularly evident in the case of retailing, as its business is based on the concept that organizations within the sector start firstly with low prices and low costs, but they gradually rise prices as soon as they enlarge the offering by adding new services (Burt et al. 2002). As inferable, they become more vulnerable when new entrants start offering low prices sought by customers (Burt et al. 2002). The Life Cycle theory, however, leaves open and raises concerns whether the failure of the internationalized retailer is entirely imputable to the external environment or can be partially attributable to the management since it entails management separation from consumers’ realities as an additional factor contributing to the increase of the vulnerability and to the reduction of proactiveness to respond to business threats (Burt et al. 2002).

The organizational studies, instead, place attention on the internal factors as major determinants of the likely failure of retailers’ internationalization (Burt et al. 2002). In sharp contrast with the industrial organization theory, this stream of thought strongly outlines the influence of the management in tracking the path of organizations, including as well withdrawal from international markets (Burt et al. 2002). The organizational perspective criticizes profoundly the rationality and objectivity of the former theory, which completely overlooks the misperceptions of the organizations’ members to respond to external factors (Burt et al. 2002). Furthermore, the organizational studies remark the inability and lack of will of the management in taking the necessary measures, capable of offsetting the downward spiral of decline triggered by external factors (Burt et al. 2002). This literature, instead, includes as factors of crisis, escalating commitment by the management to pre-existing strategies and routines, blinded perceptions of the management to their weaknesses and strengths, management malfunctioning and strategic paralysis (Burt et al. 2002).

Both theories should not be considered as mutually exclusive, but need to be incorporated as they, combined, exhaustively explain the phenomenon of de-internationalization (Burt et al. 2002). Nevertheless, a further contribution to the literature about failure in the international expansion comes from Benito (1997) who outlines that the disinvestment of activities in foreign markets are associated with the economic growth of the host country, with the closeness of
operation to the core business activity and with the mode of the organization, in terms of subsidiary or greenfield (Burt et al. 2002). From the strict dependence of the exit mode from the mode of entry, Clark and Wrigley (1997) have put forward three typologies of exit modes, namely strategic reallocation, restructuring and changed corporate structure (Burt et al. 2002). In the context of retailing, however, these typologies become more complicated, as illustrated by Baronelli and Manaresi (1997) who, referring to the case of the disinvestment of a retailer store into a franchise, show that it is a clear example of asset-shrinking, required necessary to enhance the speed of growth (Burt et al. 2002).

The literature contributions outlined found their empirical evidence in the case of Marks & Spencer, whose internationalization adventure has been also characterized by both withdrawals from foreign markets and by partially selling its stores (Burt et al. 2002). Over the years, Marks & Spencer has entered different foreign markets such as Europe, America and Canada either through franchise or opening retailing stores (Burt et al. 2002). However, the poor global performance started being a major concern for the management, who started losing the focus on the primary British market (Burt et al. 2002). As inferable, the company was forced to reduce its international presence either by completely abounding foreign markets or by dismissing its stores overseas in the attempt to re-focus again on the British market and customers (Burt et al. 2002). This international adventure, which was more a distraction rather than bringing the benefits sought, had strong repercussions in the home market and in future foreign markets (Burt et al. 2002). Indeed, the unannounced and unexpected closeness of stores inevitably brought several lay-offs, which create turmoil and disappointment among both customers, who were not informed promptly about the withdrawal from foreign markets, and employees resulting in an overall damage for the brand in terms of loyalty (Burt et al. 2002). Scholars have pointed that there is a wide range of reasons, better defined as interconnecting reasons, starting from the lack of an overall international strategy (Burt et al. 2002). Despite having global ambitions, there were no concrete efforts to turn out these ambitions into successful actions (Burt et al. 2002).
Furthermore, the key success factors in UK such as the long-sustained buy-British policy, peculiarities of retailing operation, the emphasis on a British brand and lack of a clear design did not fit the global arena (Burt et al. 2002).

During their international expansion, Marks & Spencer carried out several take-overs of companies, without clearly understand the entities bought which resulted to be extremely different from their own operations (Burt et al. 2002). Taking into account all these factors, scholars have concluded that the failure of Marks & Spencer’s internationalization lies in the pitfalls of its management, coherent and lending more credence to the organizational studies (Burt et al. 2002). The weak international performance of the British retailer arises not only from the external environment constraints, but also from the choices of its management in entering or exiting international markets. (Burt et al. 2002). As such, a major mistake of the management was to enter different markets simultaneously even if the entrance in one single market was not fully completed, pulled by the desire to increase the market share, which eventually resulted to be a double-edged sword with lower returns and poor performance (Burt et al. 2002). In 2015, Mark Bolland, new CEO of Marks & Spencer, has displayed the willingness to undertake new international ventures in order to regain the desired positioning in the European markets and to reach India as well (Burt et al. 2002). The new international expansion is deemed to embrace a change of route, by adopting a selective approach, which consists of entering only those markets characterized by higher profitability, and by entering them principally through franchises (Burt et al. 2002).
Chapter 3: Walmart Business Analysis

3.1 Company Overview

Walmart Stores Inc. is a US multinational retailing operator, more specifically hypermarket operator, running large discount warehouses and superstores (Marcilla 2014). Founded in 1962 by Sam Walton and his brother Bud in Bentonville, Arkansas, Walmart mission is to serve its customers at the “lowest possible prices anytime, anywhere” in the attempt to help customers save money and live better (Marcilla 2014). Since the beginning of its activity, the company reported incredible results. The 70s marked a period of breakthrough for the retailing operator, getting listed in the New York Stock Exchange in 1972 after having recorded 51 million dollars of sales and reaching operativity in 11 States with 276 stores (Marcilla 2014). The 90s, on the other hand, brought the company the recognition of its efforts, becoming the number one retailer throughout the United States, and marked the beginning of its geographical expansion. Indeed in 1991 it first entered Mexico, followed by Canada and China in 1995 and 1996 respectively (Marcilla 2014). The end of 90s was then the time to head towards the European market by entering the United Kingdom (Euromonitor 2017). In 2005, instead, Walmart started to realize the seriousness of environmental issues and the need to spread an image of itself as eco-friendly operator (Marcilla 2014). As inferable, it undertook a series of measures to increase energy efficiency, to create zero waste and serve customers with sustainable and environmentally friendly products (Marcilla 2014). Nowadays, the US retailing giant continues to dominate the global marketplace with a 10% share of modern grocery retailing (Euromonitor 2017). The outstanding position has been achieved by relying on fierce price competition and aggressive store openings (Euromonitor 2017). Walmart is by all means the largest retailer worldwide with a market share equal to 3.4% in contrast to the one of the online giants, Amazon and Alibaba, being equal to 2% and 1.2% respectively (Euromonitor 2017). Despite operating in 28 international markets, the domestic market still remains the most relevant as it accounts for 76% of total sales (Euromonitor 2017). The global footprint (Figure 3.1), characterized by 52% of its outlets and 24% of total sales, has been mainly headed towards Latin America, accounting for the 8% of retailer’s
sales, towards Canada showing an increasing growth of 4% of total sales and within the European market it operates only in UK where it can maintain a share of sales on its own thanks to Asda banner (Euromonitor 2017). The Asian region, however, offers both opportunities and challenges; in Japan the US giant has encountered many obstacles for its growth, but China still remains a prosperous market for the business (Euromonitor 2017). The international expansion has been carried out mainly through its hypermarket format in the attempt to show the resonance of the model worldwide and its ability to build and replicate logistics and pricing expertise outside the domestic market (Euromonitor 2017).

On an aggregate level, Walmart corporate strategy is split along three branches. Firstly, Walmart is willing to maintain affordability as it increases convenience so as to capture the most valuable market segment (Euromonitor 2017). In compliance with the cost-leadership strategy, pursued at business level, Walmart shows interest in the implementation of digital initiatives to save costs and time, resulting in the launch of Scan & Go and Easy Reorder (Euromonitor 2017). The second branch of its strategy, instead, revolves around omnichannel with a twofold goal: learning how to run online shops and how to integrate them with physical stores (Euromonitor 2017). The third branch, on the other hand, is related to consolidate its international footprint by on one side closing down non-performing stores and on the flip side by investing massively in the modernization of stores to increase traffic (Euromonitor 2017).

The key features of Walmart business can be summarized by using the Business Model Canvas, which shows how company creates value and what
are the drivers of costs (Figure 3.2).

![Figure 3.2: Walmart Business Model Canvas (Own Elaboration, based upon Maria Serobabina, 2015)](image)

### 3.2 External environment and industry Analysis

The attractiveness of markets in which companies operate is mainly dictated by the external environment analysis and by the type of industry. While the former provides insights into the political, consumer-behavior and technological factors; the latter, instead, is mainly analyzed by resorting to the 5 forces of Porter.

The political environment mainly influences the retailing sector in terms of advertising laws, consumer protection and pricing (Marcilla 2014). US retailers are obliged to convey trustful messages to consumers as it is illegal to pass on deceptive or false claims about the products or services (Marcilla 2014). Any violation of such rules may lead to financial penalties that can exceed the monetary damage suffered by customers (Marcilla 2014). Strictly linked to that, the consumer protection revolves around the need to avoid customers being misled in their decision-making process by deceptive marketing campaigns (Marcilla 2014). In terms of pricing, on the other hand, it is forbidden to convey the idea of the existence of a price discount for products or services if this actually does not exist (Marcilla 2014).

Among US consumers nowadays there is growing concern about
environmental issues, such as deforestation, air, water and marine pollution, energy use and waste (Marcilla 2014). Consequently, consumers tend to deliberately make their decisions, being based on their lifestyles, to highlight their commitment towards the environment and expect companies to do the same in the manufacturing process of products, which profiles a type of a customer that is both demanding and powerful (Deloitte 2017). The enforcement of client activism poses several challenges for retailers, who realize the importance of customers and struggle to get in touch with them to better understand their attitudes and learn from their opinions and decisions (Marcilla 2014). Customer engagement and loyalty are triggered if products reflect the latest fashion trends and consumer centrism (Deloitte 2017). Furthermore, retailers cannot overlook the potential of the latest technologies that are expected to be incorporated both in products and in the purchasing process (Deloitte 2017). As such, following the rise of purchases through apps or online, the sector is witnessing the saturation of physical stores, of which those, incapable of keeping the pace with the latest technology, are shut down, whereas the ones, that survive, need to incorporate new technologies so as to enhance customer interaction and engagement (Deloitte 2017). Moreover, social networks play an even greater role as customers tend to shape their decisions following the wisdom of the crowd, and consequently digital marketing campaigns become a must-have for marketers if they want to reach and win customers attention (Euromonitor 2017).

When it comes to analyze the industry environment, the industry-based view offers a wide range of tools of which the most comprehensive is the 5 forces of Porter (Figure 3.3). It starts from the industry rivalry and then it adds two vertical forces (bargaining power of customers and suppliers) and two horizontal forces (threat of new entrants and of substitutes) (Grant 2013).
As Walmart has expanded internationally, it faces many competitive pressures both direct and indirect. Kroger, Target, Costco, the Home Depot, Walgreen and CVS Caremark are the main direct competitors as they provide customers with the same range of products (Marcilla 2014). Among them, Target is the retailer that most gets closer to Walmart, whose strategy is to deliver discount goods with higher quality perceived and targets mainly high-income customers (Marcilla 2014). Furthermore, Walmart faces as well indirect competition, mainly coming from convenience stores. As inferable, the US retailing arena is characterized by a large variety and number of retailing firms that aggressively compete with each other, resulting in a high industry rivalry (Greenspan 2017).

A substitute is a product that satisfies the same need but with a different technology. In the retailing industry, the threat of substitute is weak as, despite being a great availability of substitutes and of other retailers where to shop from, the EDLP strategy still makes Walmart more attractive, which discourages customers from switching to other brands (Marcilla 2014). Furthermore, even though online retailers, such as Amazon, do offer the convenience sought by customers, Walmart products affordability is able to offset it and makes Walmart prices unequaled (Marcilla 2014).

With regards to the threat arising from potential new entrants, it is noteworthy to point out that it is moderate. Even though the market is characterized by a high fragmentation and by low barriers to entry, which make relatively easy for
potential new competitors to enter and establish their presence, it requires a lot of capital investments to build up a distribution and supply network like the one run by Walmart (Marcilla 2014). Furthermore, the price advantage of Walmart acts as an additional detriment for potential new players to enter (Marcilla 2014).

Both the bargaining power of suppliers and customers are weak. The low intensity of suppliers’ power is mainly imputable to the large variety of suppliers’ population and the high competition makes them incapable of exerting pressures on Walmart and on other retailers (Greenspan 2017). The low bargaining power of customers, instead, is attributable to the small purchase size and to the high diversity among customers, who are likewise unable to influence Walmart and other retailers (Marcilla 2014).

3.3 Internal environment Analysis

The internal environment analysis revolves around the need to investigate the management of the operations that are the major drivers for the outstanding success and sources of competitive advantage for Walmart. The key success factors are centered around location, supply chain process and quality systems.

Location is the driver influencing both consumers in how they do their shopping and suppliers in how they deliver the products into the stores (Marcilla 2014). Location advantages are translated into the need to keep each store close to the other, resulting in a reduction of shipping costs and in the exploitation of economies of density (Marcilla 2014). The logistics strategy consists of relying on a dense network of stores which, in turn, makes easier and cheaper the delivery of products (Marcilla 2014). This system is also known as “radiating” in line with the Just in Time technology. Apart from having devised stores in order to be geographically close to each other, another peculiar feature of the location advantage is the location itself in which stores are established. Walmart tends to place its stores mainly close and around highways with a twofold implication; on consumer side it allows to provide large parking areas as customers tend to go shopping by their own cars and on supplier side, it is easier for them to reach the departments for products delivery (Marcilla 2014).
Supply chain processes are devised so as to provide high quality products at lowest possible prices, but at the same time they result to be profitable enough with high returns on investment (Marcilla 2014). The key to successfully operate at the lowest possible cost lies in having an efficient operational management (Marcilla 2014). When Walmart starts entering into a new region, it creates a distribution channel in a central location and consequently all new stores are established around it, which allows to keep low the additional costs of establishment of new stores (Marcilla 2014). Furthermore, the tight control over the supply chain is guaranteed by squeezing suppliers on price, by setting competitive bidding for contracts and by working closely with its vendors through the adoption of Just in Time technology or Vendor-Managed Inventory, which keep constantly low the stock of inventory (Marcilla 2014). The adoption of Electronic Data Interchange reduces significantly the costs of ordering products and paying bills (Marcilla 2014). Through this system, each Walmart vendor has knowledge about the level of inventories for each product at each store and with this information in mind, it is possible to enhance efficiency, reduce inventory costs and test the potential of new products (Marcilla 2014). The managerial implications of this system are quite predictable; Walmart has gained control over the timing connected with products delivery, which assures a precise flow among all stores and enables to refill stores twice a week in contrast to its competitors that report a refilling of twice a month (Marcilla 2014). In the overall attempt to produce at low costs, Walmart has based its production on standardized products, limiting to the greatest extent the customization of the service (Marcilla 2014). Moreover, the low-cost strategy includes paying low wages, locating production facilities in areas where rents are somewhat cheap, outsourcing, increasing asset capacity utilization and minimization of distribution costs (Marcilla 2014). Noteworthy to mention is the adoption of an asset turnover approach, which allows to spread fixed costs over a large number of units of product, resulting in lower final unit cost (Marcilla 2014). Also remarkable are the adoption of cross-docking inventory and the reliance on its own transportation system. The former allows to keep storage costs significantly low and consequently lower pricing, whereas the latter allows to restock stores more rapidly (Marcilla 2014). The adoption of these supply chain processes has made possible for the
company to be flexible and competitive at the same time (Marcilla 2014). A further feature of the operations’ management is related to quality systems. Walmart is keen on delivering high quality and safe products to its customers. As such, it adopts a series of quality measures and standards by testing the quality of a sample for each product before ordering the entire merchandise (Marcilla 2014).

3.4 SWOT Analysis

At this stage, it is possible to enrich the analysis by depicting a SWOT analysis (Figure 3.4), which provides a complete picture of the conditions in which the company operates, considering both the internal and external environment. The internal environment determines the strengths and weaknesses of Walmart, whereas the external environment its opportunities and threats.

Walmart possesses key strengths that have enabled to become the largest worldwide retailer. Firstly, Walmart can benefit from a strong negotiation power with its suppliers and from economies of scale due to its size, which make profitable the cost-leadership strategy (Euromonitor 2017). Furthermore, the company provides customers with a wide range of products, which are both own labelled and branded products, and is as well the precursor of many technological advancements such as the bar code (Marcilla 2014). Recently, the company has launched a smartphone-based application, called Scan & Go.
through which users can scan, bag products and pay at the self-check-out after presenting the data from their smartphones (Marcilla 2014). The information systems, tracking orders, inventories and sales levels, allow to process the information rapidly, that in turn enable managers to take quick strategic decisions, guaranteeing a highly efficient decision-making process (Marcilla 2014). Furthermore, the effective management of supply chain offers the possibility to achieve cost savings that are crucial both for gaining competitive advantage and for successfully pursuing a cost leadership strategy (Marcilla 2014). Equally remarkable it is Walmart global footprint, which accounts for the 24% of total sales (Euromonitor 2017).

However, the cost leadership strategy comes at cost as it entails as well low wages for its employees. As inferable, the main weaknesses for the company arise from the poor labor conditions, which have contributed to foster negative brand reputation (Marcilla 2014). Indeed, because of low wages, female discrimination and unpaid overtime work, the number of job lawsuits and of employees quitting their jobs to find better places to work have increased dramatically (Marcilla 2014). Another point of concern arises from Walmart business strategy, which does not contemplate the possibility to differentiate its products. This focus on cost leadership can be a double-edged sword when customers will have more income and will no longer be driven by prices when purchasing products (Marcilla 2014). A further weakness can be encountered in lower prices and decreasing margins in some product categories because of the increase of imports of Chinese goods in the US (Marcilla 2014).

The external environment offers opportunities and threats that cannot be overlooked as they respectively offer room for improvement or can compromise Walmart position in the market. One of the main opportunities comes from international markets, being a way to gain experience and increase growth. Particularly interesting are emerging markets, such as China, Mexico and India. Furthermore, as customers are increasingly concerned more than in the past with healthy issues, Walmart can take advantage through the enlargement of the range of healthy grocery (Marcilla 2014). In order to offset the negative reputation gained because of the poor labor conditions, Walmart can start drawing its attention on social welfare and should keep on focusing on
green ethics and corporate social responsibility (Marcilla 2014).

Conversely, threats arise from the conflict of interests between its intention to be environmentally friendly and operationally efficient (Marcilla 2014). Moreover, its competitors both domestic and international, such as Tesco, Target and Amazon, are increasing their power to eliminate the prices differences that Walmart benefits (Marcilla 2014). Further threats come from the international markets. Regulatory compliance and foreign economies are changing rapidly, resulting in several challenges for players operating internationally (Marcilla 2014). In the case of Walmart, the Chinese government has adopted policies that have raised that value of the currency, making more expensive the products bought from Chinese suppliers (Marcilla 2014). Additionally, when Walmart has entered foreign markets, it has been able to overcome local retailers, forcing them to close their business, which was seen in a bad light by local communities, resulting in their increasing hostility towards the US retailing giant (Marcilla 2014).

3.5 Financial Analysis

The income statement (Figure 3.5), known as well as profit and loss account, shows the revenues realized and expenses incurred by a company through a fiscal year (Brealey et al 2015). The statement indicates how the money earned from selling products or services has been transformed in net income, by taking into account also the expenses associated to the depreciation of fixed assets, payment of interests and the effect of taxes (Brealey et al 2015).
In the fiscal year 2017 Walmart has experienced a positive turnaround as revenues grew by nearly 3%, an increase with respect to the 0.8% of previous year (Euromonitor 2017). The fall in operating profit is mainly imputable to the massive investments in e-commerce, wage growth and stores modernization (Figure 3.6).

Broadly speaking, it seems that throughout the fiscal year 2017 Walmart has reacted quickly to changes in the business markets, and investments in stores and in e-commerce are rewarding the organization as the increase in store traffic is one the main drivers of growth (Euromonitor 2017). In line with the previous years, the US division is the main and bright source of sales, reporting...
an increase equal to 3.2%. As inferable, the US market remains the main strategic priority both for the competition faced and for the company’s ability to generate growth regardless of its scale (Euromonitor 2017). Nevertheless, expansion in terms of stores openings both internationally and domestically has slowed down (Figure 3.7) as a result of the actual focus on improving and boosting profitability of the current stores (Euromonitor 2017).

![Figure 3.7: Domestic and International Store Counts FY 2012-2017](https://example.com)

As far as international sales are concerned, they showed a slight increase of 25%, made possible because of elimination of exchange rates fluctuations (Euromonitor 2017), (Figure 3.8).

![Figure 3.8: Walmart Domestic vs International Sales 2011-2016](https://example.com)

Walmart has achieved an annual compound growth rate (CAGR) of 3% over the time horizon from 2012 to present days (Euromonitor 2017). This is the reflection of Walmart ability to keep up pace with the market, despite the rise of online retailers and the growth of large in-stores retailers such as Kroger (Euromonitor 2017). Figure 3.9 shows the evolutionary pattern of the net income over a time horizon from 2012 to 2017.
Figure 3.9: Evolutionary pattern of Walmart Net Income (Own Elaboration, adapted from Thomson Reuters Eikon)

It outlines a decrease in net income from 2016 to 2017 nearly equal to 30%; whereas, if taken into consideration the six-year-time horizon, the decline accounts almost nearly to 43%, passing from $16,999,000 to $9,655,000 (Eikon, 2018). The decline in net income is mainly imputable to the significant increase of Selling & Administration expenses, nearly equal to 20% on an aggregate basis and to 4.57% from 2016 to 2017.

At this stage it is equally remarkable to provide an analysis of ratios to better understand how well the company is doing with respect to its industry. Ratios analysis will delve into considering leverage, liquidity, efficiency and profitability ratios.

Among financial ratios, it is paramount to consider the leverage effect as it increases the gains for shareholders when times are good, but reduces them in bad times, leading eventually to the bankruptcy of the company if it is heavily in debt (Brealey et al 2015). A measure of the financial leverage is given by the debt ratio, which expresses the extent of the long-term debt compared to the long-term capital structure (Brealey et al 2015). In the case of Walmart this ratio has experienced ups and downs, getting around 28.9% in fiscal year 2017 (Eikon 2018). Broadly speaking, the higher the ratio, the riskier the company is (Brealey et al 2015). As inferable, this ratio is merely used as a proxy to account for the safety and suitability of the company for potential investments (Brealey et al 2015). To that aim, it should be compared with the median of the
industry that, being more accurate than the simple mathematical average, provides more insightful implications. The median value for the industry is approximately 24.8%, highlighting that the industry is a safer investment than the company at issue (Eikon 2018).

Liquidity ratios, on the other hand, represent the ability of the company to pay its obligations with assets having different degrees of liquidity (Brealey et al 2015). Among them, useful estimations are current and quick ratios. The current ratio depicts the ability of the company to pay back its short and long-term liabilities, using all current assets, both liquid and illiquid, being a broad and rough estimation of the financial soundness of the company (Brealey et al 2015). In the case of retailing sector, this ratio is generally below 1, which does not frighten investors as retailers are able to negotiate longer credit periods with suppliers and shorter credit period with customers (Investopedia). Not surprisingly, for Walmart the current ratio is around 0.76, while the median value of the industry is 1.32 (Eikon 2018). To have a better assessment of the short-term liquidity of Walmart, a tighter measure should be considered. To that aim, the quick ratio shows the ability of the company to pay its obligations with the most liquid assets, mainly assets convertible in cash within 90 days (Cash & cash equivalents and receivables) and the higher the ratio, the better the ability of the company to pay off its obligations is (Brealey et al 2015). However, a significantly high quick ratio may indicate that the company possesses much cash in reserves or may highlight its difficulty to collect receivables (Brealey et al 2015). Walmart has reported a quick ratio equal to 0.20 in contrast to the median value of the industry of 0.67 (Eikon 2018). Being below 1 in both cases, it indicates the high reliance of the company and of the industry to pay off the short-term obligations mainly through inventory or other assets (Brealey et al 2015).

The efficiency ratios represent the ability of the company to efficiently use its assets (Brealey et al 2015). One of the main relevant measure within the group is the asset turnover ratio that depicts the value of revenues realized relative to the value of the assets, highlighting how efficiently the company is in deploying its assets to generate high streams of revenues (Brealey et al 2015). In this case, it is desirable to have the highest ratio possible as it indicates that
the company performs extremely well, generating more revenues for dollars invested in assets (Brealey et al 2015). The retailing industry yields significantly high efficiency ratios mainly to the small assets base and high volume of sales (Euromonitor 2017). Walmart has an asset turnover ratio of 2.48, above the industry median of 2.39 (Eikon 2018).

Lastly, profitability ratios have their focus on the firms’ earnings. Among this group net profit margin and Return on Equity are the most remarkable. The former indicates the percentage of revenues that finds its way into profits, whereas the latter indicates the profits generated through the investments of its shareholders (Brealey et al 2015). Walmart shows a net profit margin equal to 2.1% and ROE equal to 12.4%, highlighting that the US retailing giant is doing well compared to the industry, with median values of 1.9% and 11.1% respectively (Eikon 2018).
Chapter 4: International expansion of Walmart

4.1 The internationalization process of Walmart

The retailing internationalization process started in 1990 when leading retailers from Europe and USA entered new markets, mainly emerging ones (Durand 2007). The phenomenon is characterized by two interdependent forces: the globalization of supply networks and the internationalization of stores (Coe & Hess 2005).

Walmart internationalization can be summarized in three distinct periods; firstly between 1991-1994 it entered adjacent markets in Mexico and Canada following the enforcement of the Agreement of Free Trade of North America (Durand 2007). The second one shows an opening and increasing interest towards the rest of the world, being mainly characterized by a cautious approach of the US retailer; rather than entering the markets straightforward and establishing its position, Walmart preferred to “test” the market so as to observe the feasibility of developing a competitive position (Durand 2007). The third phase (1999 to present days), however, is centered around the need to boost its performance and is marked as well by the withdrawals from the German and South Korean market (Durand 2007). The withdrawal was not new for the US retailing giant as it had already experienced the exit from Hong Kong and Indonesia markets a couple of years before (Durand 2007). Currently Walmart is present in 28 international markets, which have enabled to gain a broad global footprint (Euromonitor 2017).

The international expansion of Walmart was mainly triggered by market saturation and changes in the US market (Kim 2008). The latter was profoundly affected by the evolution of its demographics in which family sizes were decreasing and the baby boomer segment was increasing, resulting in a lower growth of demand conditions (Kim 2008). Moreover, the US retailing giant was coming to terms with the cannibalization of its stores as a result of the opening of more than 200 stores per year, all placed close to each other (Kim 2008). A further reason driving Walmart’s internationalization came from domestic competition.
For decades, Walmart had established its positioning as market leader in the retailing sector due to the aggressive pricing offering, but its supremacy was threatened when other US retailing competitors started adopting similar strategies and were able to run a retailing format with a superior technology and with lean business operations (Kim 2008). Consequently, consumers were less incentivized to visit Walmart stores and all these factors contributed to enhance the strategic priority to seek future growth overseas (Kim 2008).

During its internationalization process, Walmart has adopted different strategies that would allow to export its business model. In Mexico, the US retailer acquired Central Retail Holding Co. that was affected by several concerns regarding its accounting practices and, hence, it was deemed crucial to rename in a later stage as Walmart Centroamerica (Mun & Yazdanifard 2014). The relaunch of the company with a wider product assortment and lower pricing strategy was coherent with the willingness of Walmart to replicate the home-based strategy abroad in which the cost leadership strategy has been associated with the multi-format strategy so as to serve different customers and address their needs accordingly (Mun & Yazdanifard 2014). The adventure in the Mexican market was also characterized by joining forces with a local partner CIFRA so as to gain better knowledge about the market, which allowed Walmart to study the local culture, to secure alliances with the key suppliers and to better cooperate with local authorities (Mun & Yazdanifard 2014). The reliance on a local partner proved to be successful as the US retailing giant achieved a strong influence in a very short period of time, and in exchange of the knowledge and information about local markets, Walmart transferred logistics knowledge to CIFRA, improving significantly its supply chain (Mun & Yazdanifard 2014).

The entrance in the Canadian market, on the contrary, was characterized by creating a new home branding to replace the Better Homes & Gardens license, extended to both soft and hard home category products (Mun & Yazdanifard 2014). Every product was devised so as to leave strong mental associations in the minds of customers and assure them about their origin from the fashion and value chain of Walmart (Mun & Yazdanifard 2014). Within the Canadian adventure, the US retailer adopted the Radio Frequency Identification
Technology (RFIT) in 20 stores and in 12 of its suppliers (Mun & Yazdanifard 2014). The implementation of this technology was deemed crucial to improve the customer service and to be able to track tagged products (Mun & Yazdanifard 2014). The RFIT marked incredible results in terms of errors in the restocking methods, reduction of carbon emissions and of unnecessary transportation (Mammarella 2007). In Canada, Walmart decided to enter through an acquisition, basing its decision on the previous experience of other US retailers that entered the market by establishing stores from scratch and eventually resulted to be a waste of time. Thus, Walmart intended to avoid such time consuming by buying the existing and established Woolco Stores (Mun & Yazdanifard 2014).

The entrance in the Chinese market was forerun by the acknowledgment that China is not only an option for business expansion, but also an opportunity for future growth (Mun & Yazdanifard 2014). Given the rapid expansion of Chinese economy and the slowdown of growth in US, Walmart’s experience in China was revolved around the objective to become a national retailing chain without an interrelated national distribution system (Mun & Yazdanifard 2014). The US retailing giant used an offshore sourcing strategy combined with an acquisition as China was seen more as an assembly or production center for its products in US (Mun & Yazdanifard 2014). Its strategy proved to be successful as Walmart nowadays is still the largest export channel from Chinese manufactures to the United States (Mun & Yazdanifard 2014). Even though Walmart does not possess any manufacturing plants in China and its suppliers control and have the responsibility to meet certain quality standards, the strategy adopted is fully integrated with the intention to serve customers at low prices (Mun & Yazdanifard 2014). Furthermore, Walmart gained a significant bargaining power and maintained a high level of ownership, deriving from its selling strategy to buy products in China at lower prices and resell them in United Stated or in other parts of the world at a slightly higher price (Mun & Yazdanifard 2014). An additional striking outcome of its adventure is related to have fully given in the requests of the Chinese Trade Unions, which represents a climb down from its US anti-union perspective (Mun & Yazdanifard 2014).
The aforementioned examples show how Walmart has successfully expanded onto the international arena through appropriate entry modes and marketing strategies. Even more outstanding it has been the possibility to spread its philosophy nearly worldwide, which enabled to gain a source of competitive advantage over local retailers (Mun & Yazdanifard 2014).

Nevertheless, the international expansion of Walmart has been scattered as well by some “grey zones”, which resulted in few withdrawals from some markets. Besides Hong Kong and Indonesia left in 1996 and 1999 respectively, further examples can be encountered in its pulls-out from Germany and South Korea. Failing international adventures entails significant sunk costs associated with the dismissal of intangible investments (Durand 2007). Considering the international expansion of Walmart as a whole characterized by successes and failures, experts have advanced the existence of certain factors that can help to understand and address the heterogeneity of retailers’ performance abroad (Durand 2007). Management studies have focused on the importance of appropriate strategic decisions within the internationalization process; however, researchers have criticized it as it lacks consideration of the territorial embeddedness of the retailing activity (Durand 2007). This embeddedness is deemed to mutually influence both the firm and the targeted market geography (Coe & Wrigley 2007). As a result, Durand (2007) proposed the concept of a hybridization process, which is shaped by the notion of capitalism diversity, based on the idea that firms, expanding abroad, export their productive models but the success of the exportation depends on the degree of affinity or diversity between the productive model at issue and the type of capitalism in which it is implemented (Durand 2007). Also, global value chains offer points of reflection by considering the asymmetries of market power positions and how multinationals deal with strategic decisions and political channels to achieve competitive positions (Durand 2007). These streams of thought lead to take into account mainly three types of explanations, which impact on retailers’ performance abroad. The first set of explanations revolves around the strategic decisions associated with the mode of entry and the successive development within the foreign market, namely degree of endogeneity of subsidiaries’ development process, which will determine the ability of the company to
embed itself into the social, political and economic environment of the host country (Durand 2007). The second set of explanations stresses out the ability of the firm to benefit from a market position, arising from the exploitation of its proficiency to operate in various countries at the same time and of its know-hows (Durand 2007). The third set of explanations, instead, concerns the sensitivity of the company to local labor standards, which can be more or less in line with the international retailers’ practices (Durand 2007).

The degree of endogeneity of subsidiaries development process depends on the extent to which the retailer can benefit from the association with a local partner, in terms of knowledge of the local market, economies of scale and of the fast establishment of a competitive position on a greater basis (Durand 2007).

Furthermore, the exercise of market power depends on the possibility to be connected to preexistent supply networks in neighboring countries, on the impact of free trade agreements and on the ability of companies to impose their own data processing and control systems over local supply chains (Durand 2007). In the case of Walmart, proximity benefits are much more crucial in determining the success or failure in foreign markets. Indeed, it successfully entered very adjacent and similar countries like Mexico and Canada, but the entrance in Indonesia has not been very successful as the country is both geographically and culturally distant (Durand 2007). The contribution of proximity in increasing firms’ market power also allows to connect supply chains internationally, which in turn, generates higher economies of scale (Durand 2007). Another factor influencing the market power of firms revolves around the liberalization of trade. As such, Walmart entered all countries in which there is fully convertibility of currencies and are WTO members (Durand 2007). Furthermore, in the case of Walmart there is concomitancy between the beginning of its international expansion and trade liberalization, since Walmart started its internationalization process afterwards the end of the cold war and when the major treaties on free trade were signed (Durand 2007).

Equally important in gaining market share is the ability of firms to implement its control systems in the local supply chains so as to minimize the asymmetries of information and to constraint the bargaining power of local
suppliers (Durand 2007). Also, this element is undeniable in the internationalization process of Walmart; indeed, one of the causes that decreed the exit from the South Korean market was imputable to the impossibility to implement its supply chain management techniques (Durand 2007).

As retailing is a low skilled intensive activity, it is reasonably to think that labor standards play a role in explaining the performance of retailers abroad. It is broadly acknowledged that a company can easily adapt to lower labor standards with respect to its domestic market rather than managing new constraints (Durand 2007). As inferable, the initial success of Walmart took place in areas where there was and still is clear hostility towards trade Unions (Durand 2007). Conversely, one of the causes of withdrawal from the German market is imputable to the impossibility to apply both the same US labor management (low wages, weak welfare benefits and strict supervision of employees) and the “ethical code of the employee”, a tool of labor discipline widely spread in US (Durand 2007).

4.2 Walmart in South Korea: what went wrong

Broadly speaking, Walmart international expansion has been successful and the entrance in Mexico, Canada, China and UK has widely proved it. However, there are two markets in which Walmart tremendously failed to conquer: Germany and South Korea. The pull-out from the German market was the result of a series of pitfalls in terms of management and analysis of the local market (Marcilla 2014). Walmart in Germany simply tried to replicate everything it was doing in the US market, without analyzing before if there were the conditions to do so. The US retailing giant suffered from the stringent regulatory framework with regards to store hours, prices regulations, zoning requirements and strong influence of German trade Unions (Marcilla 2014). Furthermore, Walmart made several mistakes concerning the employees’ and customers’ management. Firstly, it was paramount to appoint in charge of operations in Germany a German manager as his knowledge of the market would certainly shed light on which US practices could be replicated (Marcilla 2014). Additionally, the lack of consideration of employees’ feedback generated an overall sense of frustration and impacted negatively on its venture
Secondly, the lack of analysis of German customers led to make serious mistakes which resulted in their preference for local brands. German customers, unlike US ones, are not confident at all if cashiers bag their purchases as it is found intrusive (Marcilla 2014). Being Germany environmentally aware, it was a further mistake for Walmart to enter the market by using non-reusable bags, which created an annoying feeling among customers who straightforward confirmed their loyalty to local brands (Marcilla 2014). The failure in German market was mainly imputable to the cumulative effect of cultural factors, that, if taken into account, would have led to a better understanding of the market and would have avoided the mentioned mistakes (Marcilla 2014). Conversely, the failure in South Korea is imputable to Walmart inability to understand and respond to South Korean customers (Gandolfi & Štrach 2009). Such inability is the outcome of having chosen an entry mode, being driven by the need to replicate the US business model rather than by the characteristics of the market at issue.

4.2.1 South Korea Market Overview

South Korea is one of the emerged East Asian markets and since the mid-1990s, it experienced an unprecedented economic growth, which increased demand for modern shopping environments (Coe & Lee 2006). The South Korea market was essentially closed to foreign retailers due to strict protectionists policies and was mainly characterized by small shops namely mom-and-pop stores that accounted for the 80% of the retailing South Korean market (Coe & Lee 2006). The overall protectionism present until 1995 has profoundly contributed to undermine the distribution industry (Coe & Lee 2006). A change of course came only in the mid-1990s when the government, in response to internal and external pressures for deregulation, adopted a more liberalized orientation. The deregulation process led to abolish the requirements in terms of floor space and number of stores and allowed the opening of a large number of previously restrictive service sectors (Coe & Lee 2006). Despite the less stringent regulations, the South Korean retailing market still presented some obstacles for foreign retailers to conduct properly and successfully their businesses. One of the main barriers came from the high price of real estate assets and from the rental systems, which required an
upfront payment of 70% of the property value rent (Coe & Lee 2006). A further swing towards the opening of South Korea to the world was offered by the financial crisis between 1997-1998, which on one side allowed foreign retailers to buy assets at lower and cheaper prices and, on the other side, contributed to shape a new type of customers, more price conscious (Coe & Lee 2006). The price consciousness of customers, who previously massively purchased in department stores, allowed the opening of discount stores and set the favorable conditions to provide low cost goods and high levels of service (Coe & Lee 2006). Furthermore, the financial crisis enabled the government to see in a new light the benefits that the foreign retailers could bring to the South Korean economy and started to figure out an attractive program to induce inward FDIs (Coe & Lee 2006). To make foreign direct investments more attractive, the government both relaxed the stringent regulations associated with M&As by abolishing the requirements of foreign shareholdings in domestic companies, and reduced the number of chaebols, Korean word standing for conglomerates, as they were considered to be extremely diversified (Coe & Lee 2006). The reduction of conglomerates opened the doors to potential M&As with foreign retailers or to the sales of their distribution activities (Coe & Lee 2006). As a result of such improvements to make the market more appealing, the volume of inward FDIs exceeded the proportion of outward FDIs, leading to several multinationals to enter or expand their activities in South Korea (Coe & Lee 2006). Through its gradual market opening, the South Korean retailing sector has experienced significant changes among consumers, mainly witnessed among middle income ones, whose purchasing power increased substantially (Suh & Howard 2009). The higher disposable income required the introduction of new retailing formats to replace the traditional mom-and-pop stores and to better address the diversified consumers’ needs (Suh & Howard 2009). Since 1996, new formats, including discount stores, online shopping TV home shopping and convenience stores, have witnessed a rapid growth of their sales (Figure 4.1).
Although department stores represented the only competitive modern retailing format until the mid of 1990s, they begun suffering from loss of competitiveness as a result of the higher competitive pressure and of full-market opening with a two-fold implication (Suh & Howard 2009): on one side, only the department stores owned by large business groups would have survived in the following years due to their financial stability and on the flip side, the entrance of foreign retailers and the higher competitive intensity led many South Korean retailing companies to renew their businesses in order to survive (Suh & Howard 2009). This renewal was mainly centered around the diffused adoption of the discount store format, which has experienced a rocket growth between 1996-2006 (Figure 4.2).
saw their presence shrunk (Coe & Lee 2006). At the end of 1990s the South Korean retailing market was dominated by 98 retailers of which 76 were Korean, 8 American and only 14 came from different countries (Han et al. 2002). The main actors were Walmart, Tesco-Samsung, E-Mart, Lotte Mart and Carrefour that started a fierce competition among themselves so as to take advantage of the high growth rates experienced by the retailing sector (Suh & Howard 2009). Figure 4.3 shows that, although the 14 retailers from other countries and American retailers reported higher average sales per operating day (W337.36 million and W234.45 million respectively) compared to Korean retailers’ sales (W224.69 million), on the other hand, however, foreign retailers as whole paid an average rent, being twice as much as the one of their local counterparts (Han et al. 2002).

<table>
<thead>
<tr>
<th>Variables</th>
<th>Total (N = 98)</th>
<th>Korean (N = 76)</th>
<th>American (N = 8)</th>
<th>Others (N = 14)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales per operating day</td>
<td>W241.58</td>
<td>W224.69</td>
<td>W234.45</td>
<td>W337.36</td>
</tr>
<tr>
<td>Sales per square foot</td>
<td>W0.8654</td>
<td>W0.8722</td>
<td>W0.6750</td>
<td>W0.9388</td>
</tr>
<tr>
<td>Rent per square foot</td>
<td>W0.5091</td>
<td>W0.4697</td>
<td>W0.8467</td>
<td>W0.8266</td>
</tr>
<tr>
<td>Rate of change in sales</td>
<td>14.46% (n = 88)</td>
<td>18.30% (n = 71)</td>
<td>9.07% (n = 8)</td>
<td>-11.05% (n = 9)</td>
</tr>
</tbody>
</table>

Figure 4.3: Sales and Costs of retailers based on their nationality (Monthly Discount Merchandise published by Korean Superchain Association 2000, retrieved from Han et al. 2002)

Coming to analyze the intrinsic characteristics of the South Korean retailing sector, it is possible to identify two extremely important differences with regards to the Western one. Firstly, the system is mainly owned and controlled by manufacturers, who also hold significant market power in distribution channels, and secondly, the Korean market is still a seller market (Han et al. 2002). Also, noteworthy to mention is to point out that retailers tend to establish their presence in the market by adopting three different approaches: development utilization strategy, which is widely diffused and consists of building stores mainly close to the main transportation hubs; apartment utilization strategy through which stores are established close to residential areas, and finally, the vacant land utilization strategy, which exploits the vacant land (Han et al 2002). The development utilization strategy constitutes a source of competitive advantage for local retailers as it relies on a stylized fact among

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1 Exchange rate on January 2000: 1$=Won 1245.32
Koreans, which is the frequent use of public transportation rather than of private cars for a wide range of purposes (Han et al. 2002). Equally crucial to address as peculiar feature of the South Korean retailing sector is the distribution system. Contrary to what happens in most of developed countries in which distribution systems are well devised and supported by strong infrastructures guaranteeing a smooth flow of information and goods among the actors involved, in South Korea, instead, there is an absence of well-developed infrastructure, which results in a difficulty to keep demand and supply synchronized (Han et al. 2002). Furthermore, as the price of retailing estate is significantly higher and given the small size of South Korea, it is somewhat impossible and inconvenient to replicate economies of scale through the building of a multiple chain store (Han et al. 2002). The successful integration of the supply chain is even more hindered by the lack of trust between manufacturers and retailers, who tend to hold rather than share information (Han et al. 2002). As inferable, a vendor managed system and cross-docking system, employed by many Wester retailers such as Walmart, cannot be materialized in South Korea, unless a cultural shift occurs (Han et al. 2002). Further obstacles for a successful supply chain integration can be found in the propensity of many local retailers to distribute at least 10% of total products as untaxed through unofficial distribution channels in order to enrich their competitiveness (Han et al. 2002). This behavior, however illegal, is facilitated by the awareness that violations are difficult to prosecute as the local retailing regulations do envisage the availability of electronic devises (POS) among methods of payment, which tend to be mostly cash-based. Consequently, foreign retailers struggle to remain competitive in the market and alliances with local suppliers, accustomed to elude VAT payments, remain highly unlikely (Han et al. 2002). A further impediment for overseas retailers arises from the nature of South Korea economy that, being a cash-based transaction economy, prevents foreign retailers from investing money in other value-added activities as they are required to maintain large cash balances in their bank accounts (Han et al. 2002).

Having analyzed the main economic and political trends in South Korea, it is paramount at this stage to incorporate a further perspective by taking into consideration the South Korean culture through the Hofstede’s model (Figure
According to the framework, each culture can be described using six dimensions, namely *power distance*, *uncertainty avoidance*, *collectivism* or *individualism*, *masculinity* or *femininity*, *indulgence* and *long-term orientation*.

![Hofstede Model applied to South Korea](https://www.hofstede-insights.com/country-comparison/south-korea/)

*Power distance* dimension refers to the extent to which less powerful members of an organization accept that the power is distributed unequally (Marino 2016). In the case of South Korea, a score equal to 60 indicates that the society is hierarchically ordered and centralized in which each individual has his place. *Uncertainty Avoidance* is related to the extent to which members of an organizations are felt threatened by unambiguous situations (Marino 2016). South Korea reports a score of 85, showing a high level of uncertainty avoidance, which will inevitably lead the country to rely on rigid codes of belief and behavior to minimize risks associated with the uncertainty (Marino 2016). Conversely, the *individualism dimension* indicates whether the members of the society tend to perceive themselves within a group or to take care of themselves and of their close family (Marino 2016). As a result of a score of 18 in this dimension, South Korea is a society that highlights a long-term commitment towards the group and whose dominant values revolve around loyalty, quality of life and solidarity (Marino 2016). The *long-term orientation*, instead, refers to the degree to which a society is willing to maintain its links with the past, while facing the challenges of present and of future (Marino 2016). According to the score assigned, it is possible to have normative societies (low score), which tend to maintain time-honored traditions and norms, and pragmatic societies (high score), which convey their efforts to grant modernization in education (Marino 2016). South Korea reports a score equal
to 100, which is reflected both at a social and corporate level. South Koreans tend to live being guided by virtues and organizations are keen on achieving higher growth and capital rates rather than high quarterly profits as their goal is to serve the stakeholders rather than shareholders. The last dimension, *indulgence*, refers whether members control their desires and emotions (Marino 2016). South Korea with a score of 29 on this dimension is a restraint society, characterized by a pessimistic and cynic orientation and by little or null emphasis on leisure time.

The culture analysis depicts a country in which customers are ethnocentric leading to hostile attitudes to foreign products (Gandolfi & Štrach 2009). However, the intrinsic hostility can be won by devising proper marketing efforts, taking into account that younger South Korean shoppers may show purchase patterns closer to the Western ones (Gandolfi & Štrach 2009). Having outlined the main economic and cultural characteristics of the South Korean market, it is possible to address Walmart venture.

### 4.2.2 Why did Walmart withdraw from South Korea?

In light of the outlined scenario, Walmart entered the market in 1998 by purchasing the existing and dismissed facilities of Korean Makro and by restructuring entirely according to the US business model. Its entrance took place when South Korea was fully dealing with an economic crisis that marked a significant decline of the domestic currency (Kim 2008). Despite that, Walmart had hopes about the long-term potential of its operations in South Korea that in turn would increase the sales of its international division (Gandolfi & Štrach 2009). Throughout its international venture in South Korea, Walmart wrongly believed the feasibility of adapting its business model without taking into consideration the market characteristics and resulted in its inability to understand local consumers preferences, which in turn, led to minimal revenues, uncapable of covering the substantial upfront investments (Kim 2008).

The success of its US business model is centered around the low pricing strategy so as to dominate the discount retailing sector, the superiority of its IT
system and the centralized distribution system that connects Walmart with all its suppliers through the Electronic Data Interchange (Kim 2008). Hence, it is possible to depict mainly four circumstances, which prevented Walmart from implementing its successful model in South Korea: consumer behavior, pricing strategy, market penetration and positioning, and IT systems (Kim 2008).

With regards to consumer behavior, in South Korea, Walmart failed to create the conditions necessary for the “value exchange” concept introduced by Grant and Schelsinger (1995). This concept highlights the importance of tailoring products and services in accordance with the value determined by customers rather than relying on competitor-based performance or considering customers’ preferences all equal cross-borders (Kim 2008). While in North America the value exchange was well matched with American customers as they are more willing to accept the trade-off between quality and low price, it did not fit, instead, with South Korean customers whose preferences and tastes differ significantly with respect to American customers (Kim 2008). They highly value the freshness of products and goods, which leads them to visit supermarkets or corner shops daily, whereas American customers tend to prefer long storage products (Kim 2008). Moreover, Walmart merchandising assortment ranges from dry goods to electronics and clothing, which is regarded to be more Westernized (Kim 2008), and the adaptation to local tastes is even more hindered due to the uniform distribution strategies used (Gandolfi & Štrach 2009). As a result, South Korean consumers would only have visited Walmart stores when they had needed non-food products, whereas they would keep on preferring the local retailers for food purchases and daily-use products, highlighting the incompatibility of South Korean consumer behavior with Walmart retailing format, which was aimed at serving infrequent bulk shopping (Kim 2008).

A further difference between South Korean and American customers is the definition of value. While the low pricing offering matches the value expectations of American customers, South Korean consumers tend to show a different definition of value. Indeed, they tend to be more receptive to free products or promotional sales rather than to everyday low prices (Kim 2008). The “Everyday Low price” strategy, source of competitive advantage in US and
in other foreign markets, was not perceived as a determinant of value for South Korean customers, who are more quality conscious, more brand loyal and less incentivized to switch to less expensive products (Gandolfi & Štrach 2009). Consequently, the EDLP strategy was perceived to be insufficient in value for local customers (Kim 2008). The lack of understanding of local preferences was also reflected in the stores layouts. All Walmart stores were centered around the expectations of US consumers who seek warm, standardized and friendly greeting layouts, but this type of layout does not fit with the characteristics of South Korean customers that, being visually-oriented customers, are attracted by aesthetically pleasant shopping environments and consequently, perceived Walmart stores as a warehouse-like atmosphere and cheap marketplace with poor quality products (Gandolfi & Štrach 2009).

An additional misstep was the choice of store location. As the retailing sector is characterized by high fixed costs and profit margins come from sales volume and efficient management of operations, the minimization of operational costs is crucial to boost profitability in the retailing sector (Kim 2008). To that aim, it is necessary to be able to rely on stores close to each other so as to exploit the sharing of distribution networks, of the merchandise and of resources, which in turn allow to keep low inventory levels and cost controls (Kim 2008). Broadly speaking, in order to consolidate the competitive position in foreign markets, it is vital to grant key commercial and high traffic locations (Kim 2008). In the case of South Korea, this necessity is even more stronger for two reasons. Firstly, local consumers tend to purchase more frequently in metropolitan areas and prefer those stores with close proximity and secondly, local retailers had already set their activities in key commercial areas (Kim 2008). Conversely, Walmart’s entry mode choice led to overlook the importance of establishing stores in metropolitan areas, but, on the contrary, the US retailer giant placed mainly its stores outside of cities, where the land prices were low, resulting in a replication of the US strategy of smaller city store build-up, which affected its marketing positioning (Kim 2008). Indeed, Walmart owned 16 stores throughout South Korea of which just one was in the metropolitan area of Seoul. Being not strategically positioned, stores failed to attract a large number of customers and to generate sufficient traffic.
This is a further reason why Walmart should have joined forces with a local partner rather than running the business on its own as it would have been able to rely on a key traffic-generating location. Figure 4.5 shows that out of 98 total retailers, those that placed (25) their store location in the metropolitan area of Seoul have experienced on average higher sales (Han et al. 2002).

<table>
<thead>
<tr>
<th>Variables</th>
<th>Total (N = 98)</th>
<th>Seoul (N = 25)</th>
<th>Others (N = 73)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales per operating day</td>
<td>W241.53</td>
<td>W299.93</td>
<td>W221.60</td>
</tr>
<tr>
<td>Sales per square foot</td>
<td>W0.0654</td>
<td>W1.1094</td>
<td>W0.7819</td>
</tr>
<tr>
<td>Rent per square foot</td>
<td>W0.5051</td>
<td>W0.5928</td>
<td>W0.4751</td>
</tr>
<tr>
<td>Rate of change in sales over 1998</td>
<td>14.46% (n = 88)</td>
<td>19.56% (n = 22)</td>
<td>12.76% (n = 66)</td>
</tr>
</tbody>
</table>

*Figure 4.5: Sales and cost information (Mln Won) based on the type of location (Monthly Discount Merchandise published by Korean Superchain Association 2000, retrieved from Han et al. 2002)*

Regarding the IT systems, Walmart faced several challenges for its implementation in South Korea. Its superior information technology system is a source of its competitive advantage as the US retailing giant can have access to the supplier operational processes and costs, can negotiate the vendor prices and can capture the American customer (Kim 2008). The implementation of this integrated system in South Korea was hindered by local retailing conditions such as local protectionism and supply chain fragmentation (Han et al. 2002). Furthermore, there are several layers between the manufacturers and retailers and in each layer a markup is added increasing the transaction costs for retailers (Kim 2008). South Korean vendors were not willing to have a disclosed communication with Walmart through the EDI and they were able to exert a relative market power, being able to rely on a wider range of local retailers (Han et al. 2002). Not being in the position of benefiting from its market power and lacking control over the supply chain, Walmart was not able to develop a centralized distribution network, resulting in the impossibility to fully replicate its business model, which compromised its price competitiveness (Kim 2008). Figure 4.6 summarizes the main outcomes of Walmart venture in South Korea. Although the findings are dated back to 2000 when Walmart owned only five stores throughout South Korea, they already depict what would have been its destiny in the region, which is not the success...
the US giant was and is still accustomed to. Walmart reported on average the lowest sales compared to the other retailers, being equal to W216.27 million vs W242.95 million and was paying on average rental fees twice as much its counterparts in the region (Han et al. 2002). The rent per square foot, being bigger that the sales per square foot, clearly shows how Walmart was uncapable of covering its renting expenses through sales. Hence, the results confirm the disadvantageous position that Walmart had suffered since 2000, which has ended up with its withdrawal few years later.

The entry mode choice, based on the need to replicate entirely and the US business model, led Walmart to overlook the importance to conduct proper consumer due diligence and forced the US giant to withdraw from the market and sell its stores to Shinsegae, in a deal worth 800 billion Won (Gandolfi & Štrach 2009). Walmart is an addition to the list of several other multinationals that failed to conquer the tastes of South Korean customers (Gandolfi & Štrach 2009). From this failing adventure Walmart might have realized that the business concept is always exposed to the pressures of local expectations, and flexibility, local customization and adaptation are the key drivers of success in international markets (Gandolfi & Štrach 2009).

Despite the challenges encountered in South Korea, Walmart success is still outstanding as it has been able to sustain its business both domestically and globally (Gandolfi & Štrach 2009). The US retailing giant entered foreign markets, with the only exception of few cases, by choosing strategies and entry modes, capable of assuring profitability on the long run (Mun & Yazdanifard 2012). Furthermore, its outstanding success is made even more remarkable if it

<table>
<thead>
<tr>
<th>Variables</th>
<th>Total (N = 98)</th>
<th>Walmart (N = 5)</th>
<th>Others (N = 91)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales per operating day</td>
<td>W241.58</td>
<td>W216.27</td>
<td>W242.95</td>
</tr>
<tr>
<td>Sales per square foot</td>
<td>W0.8654</td>
<td>W0.5784</td>
<td>W0.8809</td>
</tr>
<tr>
<td>Rent per square foot</td>
<td>W0.5051</td>
<td>W0.8539</td>
<td>W0.4864</td>
</tr>
<tr>
<td>Rate of change in sales over 1998</td>
<td>14.46% (n = 83)</td>
<td>5.44% (n = 5)</td>
<td>15.0% (n = 83)</td>
</tr>
</tbody>
</table>

Figure 4.6: Comparison between Walmart and other retailers (Monthly Discount Merchandise published by Korean Superchain Association 2000, retrieved from Han et al. 2002)
is taken into account that the firm survived and successfully operated domestically and beyond borders during one of the worst economic crisis in which business cycles were contracted, business growth was shrunk and unemployment rates rocketed (Mun & Yazdanifard 2012).

4.3: A comparison with its counterpart Tesco

The South Korean culture has shaped over the years a type of customer that is suspicious of foreign retailers and has a preference towards certain product groups and modes of retailing (Suh & Howard 2009). Consequently, differently from Walmart, the British retailer, Tesco, has entered international markets by choosing entry modes according to the extent to which foreign markets allow for standardization or demand for localization (Coe & Lee 2006).

Following the consolidated position achieved in the British distribution sector, Tesco started planning the feasibility to expand in East and Southeast Asian markets, given the overall economic conditions of the region (Coe & Lee 2006). Indeed, in 1998 the burst of the economic crisis made particularly attractive for European and American companies to reach out the country as the prices of Asian companies fell dramatically (Suh & Howard 2009). At the time speaking, there were two corporate realities, each with different needs that complemented the other one. On one side, there was Tesco looking for a company to take over in South Korea, and on the other side there was Samsung Corporation that was coming to terms with the economic crisis and with an internal restructuring strategy. Samsung was suffering from the consequences of the financial crisis in terms of lower consumer confidence and higher costs of financing, which resulted in an accumulated loss equal to approximately $200 million, but at the same time it did not want to abandon the attractive retailing sector and was looking for foreign companies to raise capital (Suh & Howard 2009). Conversely, Tesco realized that it could not survive in the South Korean market given the existing multinational and local companies, and recognized the importance to join forces with a local partner so as to create synergies and benefit from its knowledge about the country (Suh & Howard 2009). In light of that, Tesco entered the South Korean market through a joint venture with the Samsung Corporation distribution unit and opened its
Homeplus chain in 1999 (Coe & Lee 2006). Initially, Tesco secured the 51% of stake within the firm that in a later stage it was increased by 8% (Suh & Howard 2009). The terms of the deal entailed to maintain all Samsung employees and to appoint local managers as CEOs of Samsung Tesco (Coe & Lee 2006). These choices already reflect the intention of the British retailer to be highly responsive to local needs (Suh & Howard 2009). Like each joint venture, it brought mutual benefits for both parties. On Tesco side, being completely unknown in the South Korean Market, the joint venture enabled to rely on a valuable local partner in a market, characterized by a strong nationalistic outlook and fierce competition among local rivals (Coe & Lee 2006). Conversely, from Samsung perspective, the joint venture allowed to sort out the liquidity problems that were affecting the corporation by injecting additional and sough-after funds (Suh & Howard 2009). Liquidity problems arose from the wrong decision to open the major stores simultaneously during the period in which the economic crisis unfolded, resulting in higher financing costs and less liquidity (Suh & Howard 2009). As inferable, joining forces with Tesco has enabled to clear all debts and rehire those employees that were dismissed during the crisis (Coe & Lee 2006). The joint venture secured Tesco-Samsung rapid revenue growth and the recognition as the second largest discount store in South Korea, summarized in Figure 4.7. The partnership allowed Tesco to conquer a strong market position, becoming the second largest retailer since 2002 and lagging only E-Mart.

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<td>E-Mart</td>
<td>1318</td>
<td>2358</td>
<td>3430</td>
<td>4658</td>
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<td>5831</td>
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<td>Homeplus</td>
<td>512</td>
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<td>Lotte-Mart</td>
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<td>1274</td>
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<td>Carrefour</td>
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<td>Wal-Mart</td>
<td>302</td>
<td>402</td>
<td>569</td>
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<td>Costco</td>
<td>242</td>
<td>255</td>
<td>333</td>
<td>415</td>
<td>439</td>
<td>447</td>
<td>511</td>
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*Figure 4.7: Sales Performance in Won of the top retailers in South Korea from 1999 to 2006 (Korea Chain Store Association, retrieved from Coe & Lee, 2013)*

The outstanding performance was rewarded through several prizes such as “The Best Corporate Culture Award”, “Best Customer Satisfaction Award” and
The rapid growth and success in a market, where other transnational retailers were forced to quit, are mainly imputable to the joint venture with Samsung, which provided a competitive advantage both in terms of consumer understanding and adaptation and of its ability to pick the key traffic generating locations (Suh & Howard 2009). The choice of the mode entry has allowed the strategic localization, deemed crucial to survive in the South Korean market (Coe & Lee 2013). Being strategically localized in the market at issue has twofold result: on one side it enables to be responsive to local needs and on the other hand enables to become more competitive with respect to other retailers (Suh & Howard 2009). In a nutshell, Samsung-Tesco was able to develop a “global administration”, through which its core competences were combined with a local workforce and with a detailed assessment of consumer preferences and tastes (Suh & Howard 2009). Indeed, Homeplus took on Tesco business model, its balanced scorecard approach to performance management, its innovative and operative systems, but still keeping the focus on Korean customers’ needs (Suh & Howard 2009). Conversely, Walmart, relying on its industrial model and focusing more on the intra-firm network, standardized its operations, resulting in a mass supply strategy at low prices, not enough to attract and win the skepticism of South Korean customers (Coe & Lee 2006).

Having understood the importance of being locally responsive, Tesco maintained the same name developed by Samsung to market its products, willing to deliver the image of a still Korean rather than of a foreign retailer (Coe & Lee 2013). Homeplus stores were operated as “value stores” in order to combine the attributes of discount and department stores and at the same time to offer a unique and differentiated combination of price and quality (Coe & Lee 2006). The value store was aimed at providing an “one stop living” service to its customers (Suh & Howard 2009). The concept of this new format revolves around the recognition that a store cannot simply be a place for shopping but it should be devised so as to provide customers with solutions to problems affecting the everyday life (Suh & Howard 2009). Also, in the case of Samsung-Tesco the localization model entails the production of different products for different national markets, contrary to the global model in which
the same product and business concept are exported across countries (Coe & Lee 2006). The localization of products has eventually turned out in the development of private brands in the attempt to increase its market power, categorized in three ranges: Good, Better and Best so as to allow customers to choose their own combination of price and quality (Coe & Lee 2013).

Also, the access to the knowledge of a local partner gave Tesco the insight on how to shape the power relations among different actors involved in the retailing sector such as suppliers, local manufacturers and other retailers (Coe & Lee 2006). The supply chain of Tesco-Samsung has been devised to provide high quality products to South Korean customers. Even though some standardized products are sourced globally, a large proportion is mainly sourced through direct procurement channels with local manufacturers and producers (Coe & Lee 2006). The main focus on strategic local sourcing reflects the retailing South Korean market in which manufacturers, dominated by the South Korean conglomerates, are still dominant as they offer several products to retailers (Coe & Lee 2006). In the attempt to offset the high bargaining power of manufactures, Tesco-Samsung has adopted different strategies. On one side, it seeks to increase the number of private labels to gain more market power, which is widely recommended within the marketing literature as it can foster control over the supply chain and can enhance growth by setting the conditions for differentiation from competitors (Coe & Lee 2006). The second component of its strategic behavior, instead, refers to the efforts of the company to both build cooperative relationships and share its vision with local manufacturers, vendors and suppliers by assessing their problems through frequent meetings carried out by category managers (Coe & Lee 2006).

The success of the joint venture is even more remarkable if the efforts of Tesco to avoid culture collision are taken into account. It was deemed crucial that only the hybridization of the South Korean and British culture could both offset one of the potential side-effects of the joint venture and win the initial hostility of local employees and gain their loyalty. In view of it, the CEO of Tesco-Samsung created the Shinbaration, which combines the excitement of the South Korean culture and the rationality typical of the British business culture.
This concept implies a strong sense of community in the business environment, team orientation and a flexible approach (Suh & Howard 2009). A further feature of Samsung-Tesco joint venture was the high degree of autonomy in terms of decision making granted to the local CEO with the overall intent to be perceived as a local retailer (Coe & Lee 2006). Under these circumstances, Tesco-Samsung was able to shape its own strategic pattern in terms of markets niches, investments and employment policies (Coe & Lee 2013). With regards to the latter, it is noteworthy to mention the measures taken to improve the attitudes of local employees, such as English-Language skills, information technology and capability development, regarded paramount to ensure the shift towards a more global corporate culture (Coe & Lee 2006).

In conclusion, the success of Tesco in South Korea is arguably imputable to have localized effectively firms ‘operations since the inception through its relationship with the local partner (Coe & Lee 2006). Conversely, Walmart has entered the South Korean market through a global and standardized strategy, without considering the feasibility in the market at issue, resulting firstly in slower growth and ultimately in its forced pull-out from South Korea (Suh & Howard 2009). The comparison between the two retailing giants has shed light on the argument that the localization process is influenced by market specific processes that in turn are triggered as much by host market institutional and competitive pressures as by the decision-making process of global retailers (Coe & Lee 2013). It is paramount to stress that the localization process can work in two ways; it is not only a matter of adaptation of transnational retailers to local needs, but also a way to diffuse certain technologies, developed in particular contexts, to other countries of operativity or even to the home country (Coe & Lee 2006).
Conclusions

The internationalization process requires firms to gain experimental knowledge about both individual clients and local markets, which can be gained only by establishing a physical presence in foreign markets (Eriksson et al. 1997). As inferable, the internationalization process is a matter of learning, not only from foreign markets, but also from the internal environment of the organization. Such continuous learning allows the firm to understand what it is capable when it is exposed to foreign and unfamiliar conditions (Eriksson et al. 1997). Clearly, there are some aspects of the internationalization process that cannot be planned in advance, but structures and routines need to be built gradually in response to the mentioned learning of both firms’ capabilities and foreign market needs (Eriksson et al. 1997).

The poor learning of foreign market’s needs is clear in the case of Walmart in South Korea, whose adoption of a standardized process has severely compromised its competitive position, resulting in its scarce performance in the market at issue. However, such failure can be regarded both as strategic and operational one (Gandolfi & Štrach 2009). Firstly, it did not achieve solid financial results for its operations and then it did not adjust its marketing mix to local customers (Gandolfi & Štrach 2009). It seems evident that Walmart has placed much more attention on the liberalization of the South Korean retailing sector and on its economy’s rapid growth rather than focusing on the significant differences between US and South Korean customers and on the intense competition among major retailers (Kim 2008). Indeed, South Korean consumers have different purchasing patterns and preferences compared to American ones, implying the necessity to invest massive resources by working both upstream and downstream the value chain (Kim 2008). Moreover, Walmart should have realized that, being the market already saturated and highly competitive, it was entering South Korea as a late mover and therefore, taken into account the disadvantage associated with a late entry, it should have considered whether there were the conditions to successfully allocate resources and capital to attract local customers and whether South Korea was actually so important in terms of its international expansion (Kim 2008).
The joint venture approach of Tesco, on the other hand, has been more successful and granted more rapid growth (Suh & Howard 2009). The reason mainly lies in the knowledge of the local partner, which is an undoubtedly value-added to the multinational, as the domestic partner possesses the relationship capital that the foreign firm lacks (Suh & Howard 2009).

In conclusion, the comparison has shown that the decision of an entry mode rather than another has implications in both how an MNC is able to develop a competitive advantage and how it can affect its positioning in the minds of local customers (Kim 2008). Consequently, it seems evident that for MNCs it is fundamental firstly to understand and verify whether there is compatibility between the company’s value proposition and its internal resources with local conditions, and secondly to assess whether corporate values can be exported in foreign markets with different cultures (Kim 2008). This assessment would also help to understand the level of local responsiveness required by the market and, if local responsiveness is a crucial issue for the success in the market, it would be more appropriate to choose entry modes that allow to have access to the knowledge of the local market. To that aim, for retailers expanding overseas, Gandolfi & Štrach (2009) have introduced the concept of “transplanting” through which the core competences are retained, while focusing at the same time on local customers.
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Summary

Abstract

The international expansion has become one of the greatest challenges faced by the modern enterprise and when firms contemplate the possibility to expand internationally, three main decisions must be carefully addressed, specifically which markets to enter, the time of entrance (early or late entrance) and the mode of entry in foreign markets, which, if chosen properly, can be the starting point for the overall success in foreign markets. As inferable, foreign market entry decisions seem to profoundly affect not only the competitiveness of the parent company, but it accounts as well for the performance of foreign subsidiaries abroad (Huang & Sternquist 2007). To address the choice of entry modes decisions, MNCs can rely on two main dominant frameworks, namely Transaction Cost Theory and Institutional theory, which includes as well cultural factors.

Different firms from nearly all sectors have been pulled to expand the geographical scope of their activities in search for higher growth. However, in the case of retailing sector the need for geographical expansion is more emphasized and is regarded as a sustainable strategy for growth due to the saturation of domestic markets (Mešić 2014). Among firms in retailing sector, Walmart is of particular interest as it is a global retailer, but still takes its strategic decisions, being reliant on its US customers and reporting both successes and failures in the international markets (Gandolfi & Štrach 2009).

One of the foreign countries that Walmart failed to conquer is South Korea from which it was forced to leave in 2006 following a series of wrong strategic and operational decisions. To that aim, the paper will address its pull-out from South Korea by drawing also a comparison with its counterpart Tesco, that in the same market has reported an outstanding success through the joint venture approach with a local partner (Coe & Lee 2006). Such comparison will show that, while Walmart has linked the entry mode choice to the need to replicate the well-established US business model, Tesco, instead, entered the market by choosing an entry mode that could allow it to achieve the level of local responsiveness required by the South Korean market.
Chapter 1

The concept of internationalization has embraced different meanings; Luostarinen and Welch (1988) defined it as “a process of increasing involvement in international operations”, while Turnbull (1987) tended to describe it as “the outward movement in a firm’s international operations”. Nevertheless, over the years in response to different factors, internationalization has also taken the form of de-investment; Calof and Beamish (1995), by taking into account the current trends of the internationalization, came up with a holistic definition as “the process of adapting firms’ operations to international environments”. Given the different perspectives, the research about internationalization has branched out into two complementary rather than mutually exclusive streams: economic and behavioral approach (Andersson 2000). As such, the economic view allows to better understand the later stages of internationalization but it overlooks how the process is deployed (Andersson 2000); on the flip side, the behavioral stream addresses the pitfalls of the economic view but ignores the possibility of individuals, capable of making strategic choices (Andersson 2000). Internationalization, however, is a process that determines changes at an institutional, at industry and at a firm level, as, when the market is getting internationalized, an immediate effect is the lowering of entry barriers in a specific industry, which in turn, will increase the degree of competitiveness among existing firms (Grant 2013). As a result, one of the likely outcomes is the reduction of the overall profitability, but, despite that, firms are still eager to internationalize. This phenomenon leads researchers to think about the existence of peculiar drivers of internationalization, which tend to be split in internal and external ones. While external factors derive from the environment in which an MNC operates, such as domestic market maturity or mimetic behavior of other successful companies; the internal ones, instead, can be considered as the willingness to seek new sources of competitive advantage, or as a strategy to exploit the current competitive advantage overseas or as a strategy to explore new levers that will enhance the reach of the current competitive advantage (Grant 2013). A further feature of the internationalization process is its dynamism, which evolves through different
stages that experts have reached general consensus to consider only four phases, common among all organizations, namely entrance in foreign markets, establishment of their physical presence within the foreign competitive arena, development of their competitive position and lastly rationalization of their international presence (Johnson et al. 2008).

Noteworthy to underline is that the outlined phases are not necessarily in a sequential order but it is often to witness that firms may jump from a stage to another, mainly when the internationalization is driven by the market (Johnson et al. 2008). Following the decision to enter a foreign market, an MNC has to carefully plan the mode of entry through which it will organize its operational activities overseas. Although the dominant literature tends to differentiate them using different perspectives either in terms of equity investment or in terms of tradability of the products, the decision of each mode of entry cannot disregard the consideration of three variables: degree of control, defined as level of authority over strategic and operational decision making, dissemination risk, defined as the likelihood of firm specific advantages to be usurped by the foreign partner, and asset specificity, defined as dedicated assets that cannot be deployed in alternative uses without the loss of their value (Hill et al. 1990). Recently scholars such as Delios and Beamish (1999) have started drawing the attention to combine the transactions costs perspective with the institutional dimension, which enlarges the transaction perspective as “it refers to conditions that undermine property rights and increase risks in exchange” (Delios & Beamish 1999). According to the transaction theory, when a firm enters in a foreign market, it has to compare the costs of searching, negotiation and controlling the local partner with the costs incurred if it internalizes the operations by setting up a subsidiary. It suggests that when the costs of finding, negotiating and controlling local partners are low, it is frequent to see market-based entry modes, but as soon as these costs increase gradually, MNCs tend to switch to hierarchical forms such as wholly owned subsidiary (Brouthers 2013). However, transaction costs are not only related to the outside environment but they may also revolve around internal capabilities and resources. As inferable, when the company possesses firm specific technologies, it inevitably encounters higher transaction costs imputable to the need to safeguard it from usurpation and to the higher control governance so as
to avoid opportunism and moral hazard behaviors (Brouthers 2013). It follows that when there is a lower threat of opportunism and consequently the focus is on efficiency, firms will tend to choose less integrated modes of entry (Brouthers 2013). Conversely, the institutional theory suggests that an MNC faces two types of pressures when it enters a foreign market: the first is the need to adapt to local markets and to its characteristics, and the second is centered around isomorphism, which is “the constraining process that forces one unit of the population to resemble other units that face the same set of environmental conditions” (Di Maggio & Powell 1983). According to Davis et al. (2000), it is possible to depict two forces that exert institutional pressures on organizations: internal or parental and external forces, outlining that, when SBUs tend to be mostly influenced by the internal environment and comply with the institutional norms of the parent firm, the typical mode of entry entails a high level of control in which SBUs struggle to resemble to each other (Davis et al. 2000); on the flip side, however, if SBUs tend to oblige more to host country institutional environment, low or medium control entry modes are mainly preferred (Davis et al. 2000). Furthermore, another standpoint to consider in the entry mode decisions is the trade-off between local adaptiveness and global integration, which has been addressed by Bartlett and Ghoshal (1987), presenting four models, namely international, multidomestic, global and transnational one (Figure 1).

![Organizational Models](image)

Figure 1 Organizational Models (Robert M. Grant 2013)

The international model is characterized by low levels of local responsiveness and low need of global integration, in which firms simply take products
produced domestically and sell abroad with minimal customization efforts (Marino 2016). Conversely, the multi-domestic model is suitable when there are substantial differences in terms of culture and preferences, which force to customize products and services in order to boost profitability and address the needs of local customers (Marino 2016). The global model, instead, seeks to increase profitability and growth by reaping the cost reductions from economies of scale, learning effects and location economies, as a result of the low level of local responsiveness (Marino 2016). Lastly, the transnational model has been introduced to tackle the increasing complexity in global markets and it is a suitable response when firms have both to achieve global integration and to address local needs (Marino 2016).

Chapter 2

In recent years the retailing sector has experienced a drastic change, extended as well to the customers served (Deloitte 2017). This trend has been also enhanced by the new economic era that we are living nowadays, mainly customer-driven, fueled by the spread of digital devices both handheld or wearable that are shaping a new type of customer, whose purchase decisions revolve around convenience, authenticity and creativity (Deloitte 2017). Willing to consider an overall framework of key actors within the retailing sector, it is possible to notice that on one side Walmart continues to be the first largest retailer in the world, even though it experienced a decline in sales due to unfavorable currency exchange rates fluctuations, whereas, on other side, Amazon joined the top 10 leaders, as a result of the implementation of a series of innovative services (Deloitte 2017). On an aggregate basis, in 2015 retailers revenues accounted for more than 4.3 trillion dollars, which represent on average 17.2 $ billion for each company (Deloitte 2017). These results are even more outstanding, if the turbulent and uncertain economic and political enviroment in which retailers have operated is taken into account. Indeed, fiscal year 2015 saw the appreciation of the US dollar, the decline of oil prices and the growing backlash against globalization (Deloitte 2017). An additional feature of the retailing sector is its pronounced expansion of cross border activities over the past few decades (Gripsurd & Benito 2004). The starting point of their expansion results from having realized that it is no longer viable
to grow only in domestic markets but entering foreign markets is regarded as viable strategy for future growth, driven by both pull and push factors (Mešić 2014). While the former ones are related to the benefits of foreign markets in terms of economies of scale and scope arising from the management of worldwide activities, the latter ones, instead, include saturation of domestic markets, vertically integrated distribution channels, increased activity of M&As, economic and demographic trends (Gripsurd & Benito 2004). When entering foreign markets, asset intangibility of specific technology or formats and transfer processes should be addressed as they profoundly shape the choice of the right entry mode. (Doherty 1999). Due to the difficulty to protect specific assets and likelihood of opportunist behavior of foreign partners, retailers should always assess the transaction costs involved in marketing intermediate goods, as, if they result to be high, they should certainly internationalize by internalizing the sources of their competitive advantage within the organization, through organic growth or merger & acquisitions, rather than searching and negotiation conditions with third parties (Doherty 1999). Besides transaction costs specifications, also institutional theory seems to affect somehow the internationalization of retailers, in terms of business performance and of adoption of social responsibility practices in their activities (Huang & Sternquist 2007). During their international expansion, retailing firms are exposed to two different pressures deriving from the need to gain conformity within the external environment and with the organizational practices of MNCs, which can be grouped alongside a regulative, normative and cognitive perspective (Swoboda et al. 2015). The regulative pressures revolve around the concept of imposition and inducement (Grewal & Dharwadkar 2002). Imposition implies to strictly follow the law, which makes a country less attractive, leading to prefer low control entry modes (Huang & Sternquist 2007). On the flip side, inducement is the regulative force, which enables to attract foreign firms through tax incentives or lower foreign exchange restrictions (Grewal & Dharwadkar 2002). In such a scenario, the likelihood for a retailer to choose high control entry modes increases exponentially (Huang & Sternquist 2007). Conversely, the normative pillar shapes retailers’ decision-making by taking into account the cultural and market distance, and home society characteristics, suggesting that retailers may
be discouraged from entering at all very dissimilar markets through high
control entry modes, which are more suitable in case of significantly similar
markets (Huang & Sternquist 2007). The cognitive dimension, instead, starts
from the basic assumption that past decisions will influence future ones (North
1990). The influence of past decisions is often regarded as *imprinting*, which
means that, once a practice has been chosen and implemented in the past, the
likelihood to consider alternative options in similar contexts is reduced (Huang
& Sternquist 2007). Furthermore, firms do not operate in isolation but, their
decisions are indirectly shaped by other organizations (Huang & Sternquist
2007). This occurs because taking those decisions adopted by other firms
increases the legitimacy of organizations and this is particularly true in case of
uncertain contexts, which encourage imitation (DiMaggio & Powell 1983).
Consequently, frequency and success are the main drivers why a retailer uses
an entry mode adopted by other retailers when entering similar markets (Huang
& Sternquist 2007).

Willing to remain in line with the dynamism of the internationalization process,
it is equally remarkable to address the causes that may trigger the failure of
retailers’ international expansion by using two perspectives: The Industrial
Organization and Organizational Studies (Burt et al. 2002). The former points
out that the causes of failure lie in the external environment, whereas the latter
assumes a voluntarist standpoint, focusing on internal factors that may result in
the failure of the international expansion, such as escalating commitment by
the management to pre-existing strategies and routines, blinded perceptions of
the management to their weaknesses and strengths, management
malfunctioning and strategic paralysis (Burt et al. 2002).

Chapter 3

Walmart Stores Inc. is a US multinational retailing operator, more specifically
hypermarket operator, running large discount warehouses and superstores
(Marcilla 2014). Founded in 1962, Walmart mission is to serve its customers at
the “lowest possible prices anytime, anywhere” in the attempt to help
customers save money and live better (Marcilla 2014). Nowadays, the US
retailing giant continues to dominate the global marketplace with a 10% share
of modern grocery retailing (Euromonitor 2017). The outstanding position has been achieved by relying on fierce price competition and aggressive store openings (Euromonitor 2017). Walmart is by all means the largest retailer worldwide with a market share equal to 3.4% in contrast to the one of the online giants, Amazon and Alibaba, being equal to 2% and 1.2% respectively (Euromonitor 2017). Despite operating in 28 international markets, the domestic market still remains the most relevant, as it accounts for 76% of total sales (Euromonitor 2017). The international expansion has been carried out mainly through its hypermarket format in the attempt to show the resonance of the model worldwide and its ability to build and replicate logistics and pricing expertise outside the domestic market (Euromonitor 2017). On an aggregate level, Walmart corporate strategy is split along three branches. Firstly, Walmart is willing to maintain affordability as it increases convenience so as to capture the most valuable market segment (Euromonitor 2017). The second branch of its strategy revolves around omnichannel with a twofold goal, namely learning how to run online shops and how to integrate them with physical stores (Euromonitor 2017). The third branch, on the other hand, is related to consolidate its international footprint by on one side closing down non-performing stores and on the flip side by investing massively in the modernization of stores to increase traffic (Euromonitor 2017). Walmart operates in a domestic environment, characterized by high industry rivalry, by a moderate threat of new entrants, by low threat of substitutes and by low bargaining power of both its suppliers and its customers. Given the aforementioned industry environment, Walmart has been able to develop a considerable competitive presence both at a domestic and international level through three success factors, namely the choice of location, its supply chain process and its EDLP strategy.

In the fiscal year 2017, Walmart has experienced a positive turnaround as revenues grew by nearly 3%, an increase with respect to the 0.8% of previous year (Euromonitor 2017). The fall in operating profit is mainly imputable to the massive investments in e-commerce, wage growth and stores modernization, which are the main drivers for its growth (Euromonitor 2017). In line with the previous years, the US division is the main and bright source of sales, reporting an increase equal to 3.2% and remaining the main strategic priority both for the
competition faced and for the company’s ability to generate growth regardless of its scale (Euromonitor 2017). Nevertheless, while expansion in terms of stores openings both internationally and domestically has slowed down, as a result of the actual focus on improving and boosting profitability of the current stores, international sales, instead, have shown a slight increase of 25%, made possible because of elimination of exchange rates fluctuations (Euromonitor 2017).

Chapter 4

Walmart internationalization can be summarized in three distinct periods; firstly between 1991-1994 it entered adjacent markets in Mexico and Canada following the enforcement of the Agreement of Free Trade of North America (Durand 2007). The second one shows an opening and increasing interest towards the rest of the world, characterized by a cautious approach of the US retailer; rather than entering the markets straightforward and establishing its position, Walmart preferred to “test” the market so as to observe the feasibility of developing a competitive position (Durand 2007). The third phase (1999 to present days), however, is centered around the need to boost its performance and is marked as well by the withdrawals from the German and South Korean market (Durand 2007). Considering the international expansion of Walmart as a whole characterized by successes and failures, experts have advanced the existence of certain factors that can help to understand and address the heterogeneity of retailers’ performance abroad, namely strategic decisions associated with the mode of entry, ability of the firm to benefit from a market position and sensitivity of the company to local labor standards (Durand 2007). Broadly speaking, Walmart international expansion has been successful and the entrance in Mexico, Canada, China and UK has widely proved it. However, there are two markets in which Walmart tremendously failed to conquer: Germany and South Korea. The pull-out from the German market was the result of a series of pitfalls in terms of management and analysis of the local market (Marcilla 2014). Conversely, the failure in South Korea is imputable to Walmart inability to understand and respond to South Korean customers (Gandolfi & Štrach 2009).
South Korea is one of the emerged East Asian markets and since the mid-1990s, it experienced an unprecedented economic growth, which increased demand for modern shopping environments (Coe & Lee 2006). Such economic growth is imputable to the gradual opening to the rest of the world, which has as well contributed to the improvement of management practices among domestic retailers through knowledge transfers and exposure to the world best practices (Suh & Howard 2009). At the end of 1990s the South Korean retailing market was dominated by 98 retailers, of which 76 were Korean, 8 American and only 14 came from different countries, and the main actors were Walmart, Tesco-Samsung, E-Mart, Lotte Mart and Carrefour (Han et al. 2002).

Although the 14 retailers from other countries and American retailers reported higher average sales per operating day (W337.36 million and W234.45 million respectively) compared to Korean retailers’ sales (W224.69 million), on the other hand, however, foreign retailers as whole paid an average rent, being twice as much as the one of their local counterparts (Han et al. 2002). Coming to analyze the intrinsic characteristics of the South Korean retailing sector, it is possible to identify two extremely important differences with regards to the Western one. Firstly, the system is mainly owned and controlled by manufacturers, who also hold significant market power in distribution channels, and secondly, the Korean market is still a seller market (Han et al 2002). Also, noteworthy is to point out that retailers tend to establish their presence in the market through the development utilization strategy, which is widely diffused and consists of building stores mainly close to the main transportation hubs, based on a stylized fact among Koreans, which is the frequent use of public transportation rather than of private cars for a wide range of purposes (Han et al. 2002). An equally peculiar feature of the South Korean retailing sector is the distribution system. As the price of retailing estate is significantly higher and given the small size of South Korea, it is somewhat impossible and inconvenient to replicate economies of scale through the building of a multiple chain store (Han et al. 2002). The successful integration of the supply chain is even more hindered by the lack of trust between manufacturers and retailers, who tend to hold rather than sharing information, making difficult to replicate the vendor managed system or cross-docking system, employed by many Wester retailers such as Walmart (Han et al. 2002).
Further obstacles for international retailers can be found both in the propensity of many local retailers to distribute at least 10% of total products as untaxed through unofficial distribution channels in order to enrich their competitiveness and in the nature of South Korea economy that, being a cash-based transaction economy, prevents foreign retailers from investing money in other value-added activities as they are required to maintain large cash balances in their bank accounts (Han et al. 2002). Having analyzed the main economic and political trends in South Korea, it is paramount at this stage to incorporate a further perspective by taking into consideration the South Korean culture through the Hofstede’s model. The culture analysis depicts a country in which customers are ethnocentric leading to hostile attitudes to foreign products (Gandolfi & Štrach 2009). However, the intrinsic hostility can be won by devising proper marketing efforts, taking into account that younger South Korean shoppers may show purchase patterns closer to the Western ones (Gandolfi & Štrach 2009).

In light of the outlined scenario, Walmart, entered the market in 1998 by purchasing the existing and dismissed facilities of Korean Makro and by restructuring entirely according to the US business model. Throughout its international venture in South Korea, Walmart wrongly believed the feasibility of adapting its business model without taking into consideration the market characteristics (Kim 2008). Hence, it is possible to depict mainly four circumstances, which have shaped its failure in South Korea: consumer behavior, pricing strategy, market penetration and positioning, and IT systems (Kim 2008). With regards to consumer behavior attitudes and pricing strategy, being more quality driven and brand loyal, South Korean customers highly value the freshness of products and are more receptive to promotional sales rather than to constant low prices (Gandolfi & Štrach 2009). Furthermore, Walmart’s entry mode choice led to overlook the importance of establishing stores in metropolitan areas, but, on the contrary, the US retailer giant placed mainly its stores outside of cities, by replicating the US strategy of smaller city store build-up, which affected its marketing positioning (Kim 2008). An additional factor of the failure of Walmart in South Korea is the impossibility to develop its centralized distribution network as a result of the lack of willingness of local retailers to have a disclosed communication with Walmart.
through the EDI, which compromised its price competitiveness in the market at issue (Kim 2008). Figure 2 shows the main outcomes of Walmart venture in South Korea in which it reported on average the lowest sales compared to the other retailers, being equal to W216.27 million vs W242.95 million and was paying on average rental fees twice as much its counterparts in the region (Han et al. 2002). As inferable, the results confirm that disadvantageous position that Walmart had suffered since 2000, which has ended up with its withdrawal few years later.

![Figure 2 Comparison between Walmart and other retailers (Monthly Discount Merchandise published by Korean Superchain Association 2000, retrieved from Han et al. 2002)](image)

Differently from Walmart, the British retailer, Tesco, has entered international markets by choosing entry modes according to the extent to which foreign markets allow for standardization or demand for localization (Coe & Lee 2006). In light of that, Tesco entered the South Korean market through a joint venture with the Samsung Corporation distribution unit and opened its Homeplus chain in 1999 (Coe & Lee 2006). The rapid growth and success in a market, where other transnational retailers were forced to quit, are mainly imputable to the joint venture with Samsung, which provided a competitive advantage both in terms of consumer understanding and adaptation and of its ability to pick the key traffic generating locations (Suh & Howard 2009). In a nutshell, Samsung-Tesco was able to develop a “glocal administration”, through which its core competences were combined with a local workforce and with a detailed assessment of consumer preferences and tastes (Suh & Howard 2009). Homeplus stores were operated as “value stores” in order to combine the attributes of discount and department stores and at the same time to offer a unique and differentiated combination of price and quality (Coe & Lee 2006). The value store was aimed at providing an “one stop living” service to its customers (Suh & Howard 2009). Also, the access to the knowledge of a local
partner gave Tesco the insight on how to shape the power relations among suppliers, local manufacturers and other retailers (Coe & Lee 2006). Moreover, the success of the joint venture is even more remarkable if the efforts of Tesco to avoid culture collision are taken into account. In view of it, the CEO of Tesco-Samsung created the Shinbaration, which combines the excitement of the South Korean culture and the rationality typical of the British business culture (Coe & Lee 2006). Lastly, a further feature of Samsung-Tesco joint venture was the high degree of autonomy granted to the local CEO in terms of strategic and operational decisions, which has enabled to deliver the image of itself as a local rather than of a foreign retailer (Coe & Lee 2006).

Conclusive remarks

The comparison of the different outcomes of the two biggest retailers in the same market has undoubtedly shown that the decision of an entry mode rather than another has implications in both how an MNC is able to develop a competitive advantage and how it can affect its positioning in the minds of local customers (Kim 2008). While the direct and global standardized approach of Walmart failed to trigger enough responsiveness of local customers (Kim 2008), Tesco, instead, was able to create value for local customers in line with their tastes and preferences. The reason mainly lies in the knowledge of the local partner, which is an undoubtedly value-added to the multinational as the domestic partner possesses the relationship capital that the foreign firm lacks (Suh & Howard 2009). Moreover, Walmart has placed much more attention on the liberalization of the South Korean retailing sector and on its economy’s rapid growth rather than focusing on the significant differences between US and South Korean customers and on the intense competition among major retailers (Kim 2008). Consequently, Walmart should have realized whether South Korea was so crucial for its international expansion and if so, it should have chosen an entry mode that would have assured a balance between US business model and local customers’ instances. In conclusion, it seems evident that for MNCs it is fundamental firstly to understand and verify whether there is compatibility between the company’s value proposition and its internal resources with local conditions, and secondly to assess whether corporate values can be exported in foreign markets with different cultures (Kim 2008).
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Per aspera ad astra

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