

**Impacts of standardization of visible offers on internal processes and the  
moderating role of psychic distance: The case of store retailers**

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## **Abstract**

This study addresses standardization/adaptation decisions in the context of international store retailers. Enhancing present research, the relationship between visible marketing offers and internal processes is analyzed. Based on interviews with top managers, the data show that standardization/adaptation of retail marketing instruments influences the standardization/adaptation of marketing and supply chain processes. But there are differences in psychically distant and psychically close markets. The results show that strategic and operative marketing instruments are standardized rather differently and have different impacts on standardization of processes.

This underlines a more distinctive and complex view of standardization/adaptation decisions in international retailing research. For managers, the results emphasize the relevance of market offer arrangements to changes in processes and vice versa.

## **Keywords**

Retail internationalization, adaptation, standardization, marketing mix instruments, marketing processes, supply chain processes, cultural distance

## 1. Introduction

Should retailers standardize or adapt their front-end offers or their back-end processes in foreign markets and what interdependencies are there between the two? A wide body of research deals with standardization versus adaptation decisions in international business research (see the overview on empirical research provided by Theodisou and Leonidou, 2003). In contrast, this study addresses retail firms as a rarely analysed service sector in international business research. While retailing is normally known as a local business, the leading European firms had doubled their foreign sales volumes in the last decade. Furthermore, scholars have to deal with specific challenges of retailing internationalization (Dawson, 1994; Sparks, 1995, Currah and Wrigley, 2004):

- Retail stores are combinations of tangible (e.g. assortment) and intangible offers (e.g. store layout), but these are only visible parts in the internationalization process.
- Retailers have direct consumer contacts, high transaction frequencies and a wide mix of marketing instruments to address customer needs (e.g. location, assortment, store layout).
- Markets are local for retailers, restricted by market barriers (e.g. local rules on store location, opening hours), and store design or retail knowledge cannot be trademarked.
- International retail store networks encompass sometimes 500 and more stores which cause the degree of spatial dispersion in the multinational corporation (MNC) and require a balance between centralized and decentralized decision making especially in retailing firms.
- The importance of local assortments and the high number of suppliers enhance the relative value of stock and hence the importance of sourcing and supply chain activities.
- Retailers possess a specific cost structure. The proportion of the purchase costs represents a major part of the total cost which underlines the realisation of economies of scales.
- In retailing, the income stream generated after an investment decision as well as cash flow characteristics are different compared to manufacturers. Because of the high direct investments normally made, the relative exit costs are enormous.

With regard to specific challenges of retailing internationalization, we refer mostly to

retailing research specific studies, which are of course mostly conceptual (see Table 1). Empirical retail studies address consumers' perceptions (White and Absher, 2007; Burt and Mavrommatis, 2006; Burt and Carralero-Encinas, 2000; McGoldrick and Blair, 1995), while conceptualizations of international retailers' decisions on standardization/adaptation were already provided by Hollander (1970), Kacker (1988) or Goldman (1981). They differentiate between external elements (offerings, e.g. store location, assortment) and internal elements (technology, e.g. systems, methods, and culture, e.g. norms, rules). Goldman (2001) composed such elements in one index in order to categorize more adapted or more standardized retailers in China. In contrast, Bianchi and Ostale (2006) and Coe (2003) pointed out the need to differentiate between external and internal elements (also Currah and Wrigley, 2004; Burt and Sparks, 2002), finally analyzing external elements only. International retail studies on supply chain processes, such as purchasing and logistics, take a similar approach (see Table 2). But these studies do not analyze standardization/adaptation decisions. The relationship between instruments and processes or between the demand and the supply side of international retailers is only mentioned conceptually (Pederzoli, 2008; Swoboda, Foscht, and Cliquet, 2008), and even in national retail research it is seldom analyzed empirically (Schramm-Klein and Morschett, 2006).

Of course, isolated knowledge on the degree of standardization of marketing mix instruments or processes is valuable as a basis for competitive strategy or cross-border efficiency decisions. For executives, however, knowledge of the relationship between standardization on the demand and on the supply side should be of considerable interest. A transnational strategy, for example, could be characterized as the adaptation of marketing instruments and standardization of internal processes (Alexander and Myers, 2000; Treadgold, 1990/91). In addition to strategies, this knowledge helps to gain an understanding of how changes in the degree of standardization of elements on the demand side determine changes to elements on the supply side, and vice versa. Both sides contribute to foreign retailers' profits.

[Insert Tables 1 and 2 about here]

The present study analyses this relationship. External, visible offers are defined as retail marketing mix instruments. Internal elements are marketing processes (such as market analysis, assortment planning) and supply chain processes (such as purchasing, logistics). Internal elements or secondary value chain activities (such as culture, Goldman, 2001, or structures, processes Swoboda, Foscht, and Cliquet, 2008), whose coordination options go far beyond standardization/adaptation decisions, are not analyzed.

This analysis is based on a market oriented conceptualization of market offers as a determining factor of internal processes. Hypotheses address the relationship and the moderating role of psychic distance. Sample and measurement characterizations are followed by the results according to the hypotheses. The discussion refers to the initial questions, followed by conclusions and limitations.

## **2. Theoretical background and hypotheses**

### **2.1. Definitions and conceptual framework**

According to Jain (1989), standardization of international marketing strategy means using the same marketing mix instruments, such as product, price, distribution, and promotion program on a worldwide basis. The author differentiates between standardization of marketing instruments, meaning the various aspects of the marketing mix, and marketing processes, which are defined as tools that help developing and implementing marketing mix decisions and instruments. Moreover, these processes are not visible for consumers. In the retailing context, Brown and Burt (1992) already differentiate between retail image, retail formats, and retail marketing instruments. In the present study, these retail marketing instruments represent the ‘smallest unit’ that determine the position of retail chains or formats.

Supply chain processes are defined as an integrative connection between purchasing and logistic processes (Swoboda, Foscht, and Cliquet, 2008; Pederzoli, 2008). According to a vast body of research, we see standardization or adaptation as extreme points on a continuum (see

Lim, Acito, and Rusetski, 2006 for eleven stages between the two extremes). These understandings are partly addressed in studies on global strategy (Zou and Cavusgil, 2002, Taylor and Okazaki, 2006, Lim, Acito, and Rusetski, 2006).

A challenge in our context is explaining the standardization/adaptation decision theoretically, as well as describing the relationships between marketing mix and processes (see Figure 1). The studies in Table 1 use different and often market based theories (see also Zou and Cavusgil, 2002; Özsomer and Prussia, 2000; Szymanski, Bharadwaj, and Varadarajan, 1993), while the theories regarding supply-chain processes in Table 2 are even more specific.

Without a doubt, conceptualization of marketing mix standardization/adaptation requires market based theories. These provide an understanding of the pressures to adapt to local needs or address the strategic aims and advantages of standardization/adaptation decisions (Chhabra, 1996; Özsomer, Bodur, and Cavusgil, 1991; Whitelock and Pimblett, 1997; Zou and Cavusgil, 2002). The aims of standardizing the marketing mix may be harmonization of market presence, easier foreign planning/expansion, or the use of synergies. Competitive advantages could be economies of scale and scope, easier coordination of foreign businesses, or brand management arguments. The objectives of adaptation are increasing market share, competing in local markets, achieving consumer satisfaction, or greater effectiveness of communication. The competitive advantages are based on addressing consumer needs more closely, the opportunity to adapt to foreign markets and to their changes.

[Insert Figure 1 about here]

The building blocks of internationalization strategy argue similarly, meaning that multinational firms tend to adapt and global firms tend to standardize their activities. That is not surprising because even the integration responsiveness framework (Bartlett, Ghosal, and Birkinshaw, 2004; Johansson and Yip, 1994) is based on evolution and therefore on market-based theories. Consequently, pressures to adapt or to integrate lead the argumentation (Venaik, Midgley, and Devinny, 2001). However, scholars address some limitations (Asmussen, 2008) and stress the

need to extend market based theories. Resource-based theories are proposed (Andersen/Joshi, 2008) including learning and commitment as well as knowledge-based decisions (Currah and Wrigley, 2004), economic theories or value chain approaches dominating the studies in Table 2, even combination in eclectic frameworks (Dunning, 1994, p. 79).

We argue on a dual basis. Multinational or global strategies provide a consistent understanding of adaptation-standardization decisions, e.g. adapted instruments and processes across countries (Bartlett, Ghoshal, and Birkinshaw, 2004). This theory also provides a country-specific view of the pressures to adapt (Pederzoli, 2006; Evans and Bridson, 2005). Researchers argue that most retailers have to adapt visible offers (Bianchi and Ostale, 2006; O'Grady, 1997; Dupuis and Prime, 1996), while niche strategies allow a more standardized transfer of concepts (Simpson and Thorpe, 1995; critically Burt and Sparks, 2002).

The impact of the marketing mix and processes could be conceptualized according to value chain theories. In the literature, questions of marketing, logistics and company performance are sometimes addressed, though not internationally (Schramm-Klein and Morschett, 2006).

## **2.2. Relationship between marketing instruments and marketing processes**

Researchers argue that price and communication are adapted more, whereas products and place are more standardized (Cavusgil and Zou, 1994; Chhabra, 1996). In retailing, Salmon and Tordjman (1989) argue in favor of adapting assortment and communication, and of standardizing store layout, price and service, whereas Swoboda and Schwarz (2006) argue in favor of greater standardization of location, store layout or store format. However, the relationships between marketing instruments and processes have not yet been analyzed empirically (Zou and Cavusgil, 2002; Lim, Acito, and Rusetski, 2006).

Such processes as market and trend analyses, as well as the development of new products, categories or collections, are of course all related to the results of the processes, such as articles, categories, or assortments. The question is, however, have they been standardized or adapted?

Goldman (2001) integrates marketing instruments, processes and management issues into an analysis of standardization or adaptation strategy types with the same weighting. Consistent with the IR framework, the author assumes indirectly that multinational retailers adapt both, whereas global retailers standardize both. Martenson (1987) shows in an Ikea case study that both external and internal factors are standardized because customers are willing to pick up new trends.

On the other hand, we assume that standardization of internal marketing processes is easier to achieve because consumers perceive only external instruments. The local pressure to adapt marketing mix instruments should therefore be stronger. Currah and Wrigley (2004) similarly argue that retailers should use innovations to adapt front-end processes in a country-specific context. Hence, from the market based view, it is interesting to hypothesize as follows:

*H<sub>1</sub>: The degree of standardization/adaptation of marketing instruments influences the degree of standardization/adaptation of marketing processes.*

### **2.3. Relationship between marketing instruments and supply chain processes**

Most international retail studies on supply chain processes are related to market power or purchase market issues (see Table 2), but do not address the standardization/adaptation decisions.

Arguing with internationalization strategies, Salmon and Tordjman (1989) expect that purchasing, operation and distribution processes of global retailers are more vertically integrated, while multinational retailers more probably use a multi-domestic approach. Similar to Leknes and Carr (2004, p. 33) and Bartlett, Ghoshal, and Birkinshaw (2004, p. 212 and 342), it can be assumed that global retailers standardize supply chain processes to a certain extent and, correspondingly, that multinational retailers adapt their supply chain processes to a certain extent. Coe (2004), however, indicates that the supply chain structures of transnational companies have a specific design.

It is obvious that a standardized marketing mix, or even only assortments, offers considerable options by which to standardize supply chain processes more effectively than by adapting assortments. Nevertheless, even adapted assortments could be linked to standardized

supply chain processes. Arguments for conceivable relations between marketing and logistic configurations are addressed by Schramm-Klein and Morschett (2006). Brown and Burt (1992) also conceptualize a causal chain, focusing on retail format and marketing mix initially, followed by management system and supply chain processes (also Burt and Sparks, 2002, p. 208). Coe and Hess (2005, Coe and Lee (2005) emphasize the overlapping of store design (contains certain pressures in favor of adaptation) with supply processes (pressures of local supply market structures for example). Therefore, we hypothesize:

*H<sub>2</sub>: The degree of standardization/adaptation of marketing instruments influences the degree of standardization/adaptation of supply chain processes.*

## **2.4. The role of psychic distance**

Many consumer-based studies show consumers differentiation of marketing mix preferences in specific country markets (see Table 1; e.g. Brady, Mills, and Mendenhall, 1989 compare US and UK customers). Firstly, we focus on the psychic distance, which is defined as the perception of differences between home and host country in terms of cultural and business elements (Evans and Mavondo, 2002 with an analysis on US-retail firms). The effects of cultural and geographical distance are often addressed (Brewer, 2007; Stöttinger and Schlegelmilch, 2000), unlike business distance (Evans and Mavondo, 2002, p. 523).

In this respect, it is obvious that, for a German retailer, closer markets, such as Austria or the Netherlands, offer greater opportunities to standardize instruments and processes than distant markets, for example Vietnam or even Spain. O'Grady and Lane (1996; O'Grady, 1997), however, show according to the paradox of psychic distance that a large perceived psychic distance forced a more intensive examination of the necessary adaptations and therefore resulted in better performance than geographically and culturally closer markets, where no adaptation to local needs has yet been implemented. Evans and Bridson (2005) demonstrate for retailing companies that a perceived psychic distance forced a greater adaptation of marketing mix. In

particular, the perceptions of different market structures, business practices and languages (as elements of business distance) are responsible for adaptation, while no significant impact could be shown as a result of cultural distance (Evans and Mavondo, 2002; Evans, Treadgold, and Mavondo, 2000).

With regard to the ambiguous results, the following effects of psychic distance are hypothesized:

*H<sub>3</sub>: Retailers standardize their <sup>(3.1)</sup>marketing instruments, <sup>(3.2)</sup>marketing processes, and <sup>(3.3)</sup>supply chain processes more in psychically close markets than in psychically distant markets.*

*H<sub>4</sub>: The influence of the degree of standardization/adaptation of marketing instruments on the degree <sup>(4.1)</sup> of standardization/adaptation of marketing processes and <sup>(4.2)</sup> supply chain processes is influenced by the perceived psychically distance of the host country.*

### **3. Empirical study**

#### **3.1. Data**

In order to control measurement invariance, 160 German retail chains that operate internationally were identified. CEOs and expansion managers were informed personally about the study and an interview was requested at the firm's headquarters. Eighty-one managers in 71 firms were available to us for interviews at their firm's headquarters. In ten cases, information was gathered from two individuals in order to exclude single informant bias (according to Slater, 1995, Hughes and Garrett, 1990), however, no significant differences were noted. The 71 firms represent more than 40 percent of all retailers operating internationally in Germany. As illustrated in Table 3, the firms are large retail chains. The high level of standard deviations in our sample is an indication of a wide range of retailers in terms of size and international experience.

[Insert Table 3 about here]

#### **3.2. Measures of psychic distance**

For the purposes of this study we asked the respondents to evaluate the international standardization/adaptation of marketing instruments in two countries in which the firm is operating; one psychically distant and one psychically close market. To control the psychic differences of the countries chosen, two initial questions were asked on cultural and on business distance (Evans and Mavondo, 2002) with possible replies on a five-point Likert scale (1 = entirely different to 5 = entirely the same). Further measurements include items on cultural distance and five items on business distance mostly in comparison to the home country (Evans and Mavondo, 2002).

### **3.3. Measures of instruments und processes**

Bianchi and Ostale (2006) and Goldman (2001) serve as the basis for identification of internationally relevant marketing instruments and processes. The authors use 40 items/elements to measure the degree of standardization on a five-point scale, but these items are only mentioned as examples.

In order to strengthen the elements used, we conducted intensive pre-tests. Three experts and two top retail management seminars were used to collect associations on international marketing mix instruments, on international marketing and supply chain processes. In the seminars, the associated elements were used to investigate the participants' own retail chains and well-known competitors. The descriptive results and some plausibility checks led us to the somewhat exploratory use of ten items to measure each dimension.

In the main study, five-point Likert scales were used to evaluate the degree of standardization (5) or adaptation (1) for each of the 30 items. Foreign activities were surveyed in one psychically close and one psychically distant market. Germany was the reference market in most cases. The factor analyses for both foreign country markets were integrated into the survey. The measures of marketing instruments are shown in Table 4. The satisfactory KMO value of .770 and a significant Chi-square value of the Bartlett test of 326.8 ( $df = 45$ ,  $p \leq .000$ ) demonstrate

adequate goodness of fit. We also asked the managers about the strategic importance of international standardization/adaptation of marketing mix instruments in each case. Similar to Hult et al. (2007), we only used mean values in order to illustrate the results more clearly. Labeling of the factors is oriented to the related results. Factor 1 consists of strategic instruments, such as retail format, store location, and store layout. Factor 2 includes tactical instruments, such as assortment, private labels, and price, while Factor 3 includes more operational or less internationally strategic instruments, like service, communication, and sales promotion. The retail brand has not been aligned statistically to any of these factors. This can be explained by means of the different decision determinants relating to a retail brand. In the case of acquisitions abroad, for example, the retail brand acquired is retained, while the other marketing instruments are replaced by the acquiring firm's own concept. Thus, in the following analysis, the retail brand is included as a separate indicator because of its high strategic relevance.

As far as the marketing processes are concerned, the KMO value and also the Bartlett test are satisfactory (see Table 5). The three factors can be considered reasonable and represent product-/ sales-oriented processes, analytical processes, and systemic processes.

The pre-tests for the supply chain processes were more difficult. Finally, we aligned four elements related to purchasing processes, four elements related to logistic processes, and two elements related to information logistics. The two-factor result also has satisfactory goodness of fit (see Table 6), but purchasing and logistic processes could not be separated statistically. In the following analysis, the estimated factor loadings are applied. This is why we refer to the country-specific results, while the results of separately asked questions support the following insights all in all.

[Insert Table 4-6 about here]

Due to the role of the retail brand, Table 7 shows the test for multi-collinearity (Belsley, Kuh, and Welch, 1980, p. 93; Pedhazur, 1997). The retail brand correlates moderately with the strategic marketing instruments and tactical instruments (MI 1 and MI 2), but less with the

operational marketing instruments (MI 3). Additionally, the VIF of all regressors falls below 2, thus multi-collinearity was not a serious problem in the present database (Mason and Perreault, 1991).

[Insert Table 7 about here]

## **4. Results**

### **4.1. Standardization of marketing instruments, marketing and supply chain processes**

Retail firms standardize their marketing instruments, marketing processes and supply chain processes more in psychically close markets, but only by trend (see Table 8). Retail brand and strategic marketing instruments are not standardized differently to a significant level in psychically close and psychically distant markets. Tactical and operative marketing instruments differ on a low significant level. The product-oriented and sales-oriented marketing processes differ by the trend as the supply chain processes do. Thus, the results support hypotheses 3.1 partially, but not hypothesis 3.2 and 3.3.

[Insert Table 8 about here]

### **4.2. Impact of marketing instrument standardization/adaptation on marketing processes**

The impact of marketing instrument factors and of the standardized retail brand on marketing processes is analyzed in a set of regression models comparing psychically close and psychically distant markets. The results provided in Table 9 support hypothesis 4.1. There are considerable differences between the  $R^2$  values between psychically close and psychically distant markets. Although not all the differences for each factor are significant, hypothesis 1 can be supported entirely because both sets of results show relationships between standardization/adaptation of marketing instruments and processes.

A high score of explained variance is estimated by Models 1 and 4, which analyze the dependency between standardization/adaptation of marketing instruments and standardization/adaptation of product-oriented and sales-oriented processes (MP 1: development

of categories, articles, sales). The strongest impact is found between MI 2 and MP 1, meaning that decisions relating to assortment, own labels, and price determine the product-oriented processes. The retail brand also has a significant impact on MP 1.

The results in Models 3 and 6 also have a high  $R^2$ , while strategic, tactical and operative instruments (MI 1 to MI 3) have a significant impact on MP 3 (development of store layout, CRM systems, and quality standards).

Models 2 and 5 show significant but not very high  $R^2$ . The results are questionable because the standardization/adaptation of market/trend analysis and store location planning could not really be explained by the related marketing instruments.

In conclusion, however, the impact of standardization or adaptation of marketing instruments on marketing processes is distinctive and not unilateral.

[Insert Table 9 about here]

#### **4.3. Impact of marketing instrument standardization/adaptation on supply chain processes**

Results relating to standardization/adaptation of supply chain processes rely on the standardization/adaptation of marketing instruments in culturally close and culturally distant markets, which supports hypothesis 4.2 (see Table 10). Once more, the relationships are stronger in psychically close markets than in psychically distant markets. The significant results support hypothesis 2.

Models 1 and 3 show a high score of the explained variance and the largest impact of assortment, price and private label decisions (MI 2) on purchase and logistic processes (SC 1). Furthermore, the retail brand again affects standardization/adaptation of supply chain processes.

In Models 2 and 4, however, the  $R^2$  values explain only a small percentage of variance. The choice of ERP system is not strongly linked to standardization/adaptation of marketing mix. Thus, the relationships have to be interpreted carefully.

Once more, the impact of standardization-adaptation of marketing instruments on supply

chain processes is distinctive and not unilateral, but is dominated by tactical instruments in the case of supply chain processes.

[Insert Table 10 about here]

## **5. Discussion**

### **5.1. Standardization/adaptation of retail marketing instruments**

Before conclusions are drawn, we discuss the results of the empirical study in three ways: standardization/adaptation of the retail marketing instruments, their interdependencies with standardization/adaptation of internal processes, and the role of psychically distant and psychically close markets.

The results show that retail marketing instruments are not standardized or adapted equally. This supports the arguments of those researchers who assume some differentiation of marketing instruments in the standardization/adaptation debate (in addition to the articles mentioned, see Clarke and Rimmer, 1997; McGoldrick and Ho, 1992; White 1995). The marketing mix factors are not free of correlation. In particular, the tactical (MI 2: assortment decisions) and the strategic decisions (MI 1: retail format, store layout, store location) are linked, as is the retail brand decision. In this respect, unweighted indices like those of Goldman (2001) are only an approximation by which to classify more or less adapted retailers or their more or less multinational or global strategies.

The mean values of each marketing mix instrument indicate that the retail brand and the retail format are least adapted, while decisions on both factors bear the highest strategic relevance in international markets. 84.5 % and 73.2 % of the managers see these instruments as being of international strategic relevance. Store location and store layout follow in terms of standardization level, as well as of strategic importance. Assortment and private labels capture a middle range position relating to strategic relevance and level of standardization/adaptation, while service is standardized similarly, but is not of such strategic relevance. Price, service, communication and

sales promotion are adapted more often, while communication and sales promotion, in particular, have low international strategic relevance.

The standard deviations of the mean values are considerable, with values beyond 1.0. This denotes considerable variation in configuration of marketing instruments. It could be shown, for example, and not even surprisingly, that grocery retailers adapt significantly more with regard to six out of ten instruments compared to non-food retailers. This applies particularly to all strategic and tactical instruments (except for private labels). Finally, marketing mix instruments are less standardized than marketing processes and, in particular, supply chain processes.

The empirical results are unique in international retail research, especially in terms of the relationships between marketing instruments and marketing processes or supply chain processes.

## **5.2. Impact of marketing instruments on marketing processes**

Researchers using standardization/adaptation indices should be aware that the standardization/adaptation decisions for marketing processes are similar, but not identical to the decisions on marketing instruments (see for that Theodisou and Leonidou, 2003; Jain, 1989). Of course, the relationships are strong, especially for

- product or article and sales-oriented processes (MP 1: development of categories, assortments, products, and regarding sales and promotion features) and
- systemic processes (MP 3: development of store layouts, CRM systems or quality standards).

Less strong relationships exist particularly for the analytical processes factor (MP 2, market/trends analysis, store location planning). Furthermore, a relation matrix would show that MP 1 and MP 3 are mostly related to MI 2 and also MI 3, tactical and operative marketing instruments. MP 2 has a significantly stronger link to MI 1 (retail format, store location and store layout) and the retail brand.

Our observations possibly indicate a serious need to take a closer look at the relationships between research and practice. Market/trend analyses and store location planning, for example,

are located at the beginning of the value chain in many fashion retailer firms. In this case, however, the relationship could have a stronger representation within the marketing instruments. A comparison of fashion retailers, which are driven by trends, short life cycles, and grocery retailers, which are driven by economies of scale, could shed more light on this issue.

### **5.3. Impact of marketing instruments on supply chain processes**

According to Swoboda, Foscht, and Cliquet (2008), the relationship between marketing instruments and supply chain processes is dominated by tactical, product-related instruments (MI 2) and purchasing and logistic decisions (SC 1). Lower-level relationships exist between ERP/IRP systems (SC 2) and standardization/adaptation of marketing instruments (especially retail brand and MI 2). Further factors are relevant for such investment decisions on ERP/IRP systems.

Based on the results, however, it is obvious that a decision to implement greater adaptation of assortments in a foreign country, for example, could have different implications, such as greater proximity to consumer needs, but also changes in supply chain and marketing processes and therefore higher costs. This results not only indicate a trade-off between cost and sales, but also indicate a trade-off in terms of the relationships, competences, and distribution of resource between headquarter and subsidiary. But in that case, scholars should take into consideration that retailers have to coordinate not only one foreign subsidiary, but 500 and more store per country.

### **5.4. Role of psychic distance**

Evans and Mavondo (2002) underline the important determining and moderating role of psychic distance in standardization/adaptation decisions by retailers operating internationally. Not surprisingly, our results show that retailers adapt instruments and processes to local needs slightly more in psychically distant markets. The perceived pressures to do so are possibly higher.

However, this observation also supports partially the paradox of psychic distance (O'Grady and Lane, 1996; O'Grady, 1997), which assumes that a large psychic distance demands a closer examination of local needs, greater adaptation and higher performance. We did not take

performance into consideration, but it is worth asking whether it would be wise to adapt more in distant countries, perhaps with high growth potential, or in closer markets, often with higher market shares. In practice, it is perhaps a paradox of internationalization in retailing, where retailers adapt most in the home country, and also in distant host countries, but less so in psychically close markets. Furthermore, most of the markets in our study are European countries, in both Eastern and Western Europe. In view of this fact, we dispensed with an examination of the role of cultural and business distance in more detail.

Regarding the moderating role of psychic distance on the relationship between standardization/ adaptation of marketing instruments, marketing processes and supply chain processes, this effect is more distinctive in psychically distant markets. Perhaps retailers are forced to adapt their offers and they do this not to the same extent with the background processes, and vice versa. One further interesting question addresses the determinants of standardization/adaptation decisions.

## **6. Conclusions and limitations**

The empirical data support the hypotheses. The standardization/adaptation of marketing instruments affects the standardization/adaptation of processes. Thus, the second question posed at the outset can be answered partially, i.e. which interdependencies exist between the two? This extends the knowledge available in retailing research, where the standardization/adaptation of retail marketing instruments in foreign markets is mostly considered in isolation.

As regards former conclusions, researchers as well as managers who considered the adaptation of marketing instruments in isolation should consider that the degree of standardization/adaptation of marketing instruments influences (1) the degree of standardization/adaptation of marketing processes, and (2) the degree of standardization/adaptation of supply chain processes. A reasonably market oriented view, based on marketing offers aimed at greater adaptation to local needs, should not neglect the background

processes for several reasons.

Firstly, changes in market adaptation are linked to changes in background processes, and vice versa. Thus, the empirical observations provide initial insights into which marketing instruments are related to which marketing or supply chain process. These relationships have also been considered when looking at the performance or at least the efficiency of the processes.

Secondly, changes in marketing instruments involve not only standardization/adaptation decisions, but also further coordination aspects. For instance, how does the degree of vertical integration, as a central impact factor for configuration of supply chain processes, influence the degree of adaptation (Johansson and Burt, 2004; Johansson, 2002)? In an isolated view, it is obvious that the more retailers integrate, the easier coordination of supply chain processes becomes. Furthermore, it is also obvious that changes in the SCM often involve radical reorganization and are not often determined by foreign markets only. Wherever it is applied, one asset of internationalization is the multiplication of an almost standardized business concept. Then the retailer has to ask whether he has to adapt to local needs in the way that manufacturing companies do, establishing a portfolio of countries with different roles and levels of adaptation.

The results regarding the impact of psychic distance demonstrate that retailers adapt more often in distant markets compared to closer markets. The reason for this can be interpreted either by the pressures to adapt, by particularly high-potential markets, or other external determinants. However, this could also be analyzed from a voluntaristic resource-based view.

Of course, the study is not without limitations. The theory-based conclusions are not mandatory. From a methodological point of view, we have to deal with behavioral self-typing measures, single informants, linear relationships, missing validation by comparison with deviation from a basic sample or a country sample, which allows control of measuring invariance, but is, of course, not representative of all retail companies worldwide (see Yip, Biscarri, and Monti, 2000; Philips, 1981; Levitt and March, 1988; Clark, 2000).

Finally, we did not control such variables as the firm's particular retail sector, its

international experience or the size of the retail firm. We take both, institutional and functional retailers, into consideration which is widely applied in international retailing research, but normally does make a difference.

Table 1: Status of international retailing research regarding standardization versus adaptation

Author(s) and year	Research question	Theoretical basis/ framework	Emp. basis/ sector/method	Core results/impact relation
Bianchi, 2006	RI process of retailers from emerging countries	None	Case study analysis (N=1), based on primary and secondary data / Chile / qualitative	<ul style="list-style-type: none"> <li>- Successful Retail internationalization from emerging markets</li> <li>- Home and host country networks, innovation orientation, organisational learning, marketing knowledge, entry mode strategy and management capabilities as driving forces for successful internationalization</li> </ul>
Pederzoli, 2006	Explanation of RI process	Literature on int., strategic models and RI process; Stemquist 1997	Secondary data and expert interviews (N=37) / Food/Non Food, / Correlations	<ul style="list-style-type: none"> <li>- <i>Global</i> and <i>multinational</i> strategy as “orientation of marketing”</li> <li>- “Strategic” orientation as the most important variable in the RI process; dominated by “global” orientation</li> </ul>
Bianchi and Ostale, 2006	RF adopted to market conditions are more successful in terms of less divestments	Institution oriented perspective and concept of Goldman (2001)	Case study analysis (N=4), based on primary data / Chile comprehensive / qualitative	<ul style="list-style-type: none"> <li>- Hypothesized that RF are more successful if they are adopted to the host country institutional norms, rules etc.; adjustments of internal and external elements (according to Goldman 2001)</li> <li>- Hypothesis based on negative examples; all RF fail in specific market if they do not gain legitimacy</li> </ul>
Evans and Bridson, 2006	Explain the degree of adoption of marketing instruments by the perception of psychic distance	Concept of psychic distance	Primary data (N=102) / Non-Food worldwide / regression analysis	<ul style="list-style-type: none"> <li>- Psychic distance = cultural + business distance</li> <li>- Psychic distance affects positively retail offer adaptation</li> <li>- Especially market structure, business practices and language (dimensions of the business distance) increase the degree of retail offer adaptation; no significant influence of cultural distance estimated</li> </ul>
Jackson/ Sparks, 2005	Internationalization of Marks & Spence to Hong Kong	Geographic-cultural fit; motives; MES risk; organizational learning; socio-scientific approaches	Case study analysis based on primary data (N=1) / UK, Marks & Spencer / qualitative	<ul style="list-style-type: none"> <li>- Focus on market entry and divestment; phase of local operation which deals with standardization vs. adaptation and central vs. de-central actions of organizational structures, management, supply, marketing</li> <li>- View of internationalization as a complex and reciprocal process including several phases</li> </ul>
Currah and Wrigley, 2004	Adaptation of RF (in terms of Goldman 2001) by network learning	Networks + competence-based view in terms of learning	None	<ul style="list-style-type: none"> <li>- Describe int. RF as “Retail TNCs” with a network structure including know-how (internal) and „offering“ (external) elements with relationships between each other</li> <li>- Posit that RF adopt during international operations; use innovations of back end processes to adopt front end of a format regarding culture</li> </ul>
Burt and Sparks, 2002	Analysis of corporate branding within the context of RI	Corporate branding approaches	Short case studies (N=3), based on secondary data / UK (Tesco, Marks & Spencer, Sainsbury) / qualitative	<ul style="list-style-type: none"> <li>- Internationalization hampers a consistent corporate branding because: Strategic positioning/image are difficult to standardize, high dependence on employees, local networks</li> <li>- International retail brands are often arranged in niches and even there adaptations (in terms of assortment, service) are necessary</li> <li>- Emphasize to make a strategic decision regarding standardization or adaptation to local needs</li> </ul>
Goldman, 2001	Process of business format transfer by foreign RF to China dependent on motivation to adapt the business format	Inductive, “grounded theory”; concept of “retail format” according to Hollander 1970, Kacker 1985, Kacker 1988	Primary data (N=27) / overall / qualitative, frequencies, “classification”	<ul style="list-style-type: none"> <li>- Distinguish retail format elements into 40 external (offer-related) and internal (know-how related) components, classified by form of adaptation and amount of adaptations</li> <li>- Four patterns of format adaptation (no adaptation to strong adaptation)</li> <li>- Detected six format transfer strategies which are determined by conditions in china compared to the home market and market segments</li> </ul>
Goldman, 2000	Analysis of success factors of Chinese supermarkets	„Food retail modernization theory“	Secondary data concerning consumer behavior + analysis of primary data (N=approx. 80) / CN, Food (supermarkets) / qualitative	<ul style="list-style-type: none"> <li>- Retail formats in china with the elements: external = apparent to customers, assortment, store layout, service, location, price; internal = a repertoire, e.g. norms, experience, strategies; b) technology, e.g. systems, methods, techniques, organizational structures</li> <li>- Modernization of retail structure is determined by domestic chains; supply chain factors, no consumer behavior, government or traditional retailer are a problem for establishing a retail format</li> </ul>
Brown and Burt, 1992	Aggregation of several studies concerning RI	Mention different concepts, e.g. OLI-paradigm	None	<ul style="list-style-type: none"> <li>- Suggest to engage the standardization-/adaptation debate on different levels (brand/image, retail format and marketing instruments, managements systems) in RF’s</li> </ul>
Segal-Horn and Davison, 1992	Standardization-/ adaptation debate for the first time in retailing context	Globalization-/ standardization debate according to Levitt (1983)	None; sporadically short case studies based on secondary data	<ul style="list-style-type: none"> <li>- Demonstrated that some instruments are easier to standardize than others; consider three “management-components”: role and management of employees, role of intermediates</li> <li>- Three requirements of a global strategy: existence of international customer segments, economies of scale and scope by global operations, establishment of global trading areas</li> </ul>
Kacker, 1988	Conceptualize the requirements and impacts as well as the transfer process of retailing know-how beyond borders	None (critical about evolution/ growing theories, does not explain the transfer of retail concepts from one country to another one)	Conceptual + secondary data concerning international operating RF + 3 case studies; descriptive	<ul style="list-style-type: none"> <li>- Conceptualization of retail know how: technical dimensions (location, store layout, store atmosphere etc.) and management dimensions (retail concept, systems, controls, strategies)</li> <li>- Transfer of retailing concepts into planned and unplanned forms</li> <li>- Successful internationalization is determined by context factors in host countries and adaptations of prices levels, assortments etc. as well as the installation of appropriate infrastructures</li> </ul>
Martenson, 1987	Coordination of marketing activities standardization and adaptation as well as their antecedents	None	Case study analysis (N=1), based on primary data / furniture (Ikea), SWE / qualitative	<ul style="list-style-type: none"> <li>- Factors of standardization: internal (human behavior, organizational structure, decentralization), external (customer related behavior)</li> <li>- Potential to persist with a standardized marketing concept in a very local embossed business because customers are willing to adapt new trends; supported by a highly coordinated buying</li> </ul>

Goldman, 1981	Framework to explain the transfer of retailing formats (particularly supermarkets)	Innovations-/ diffusion theory	None; conceptual	<ul style="list-style-type: none"> <li>- The survey posits two areas: supply side (dependent on technology, infrastructures etc., which requires a format) and demand side (country specific consumer behaviour)</li> <li>- Result: supermarket are not yet suited to china because both sides are still influenced by other conditions</li> </ul>
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MES = market entry strategy; RF = retailing firm; RI = retail internationalization.

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**Table 2: Status of international retailing research regarding supply chain processes**

Author(s) and year	Research question	Theoretical basis/ framework	Emp. basis/ sector/method	Core results/impact relation
Swoboda, Foscht, and Cliquet, 2008	Framework of RI process, oriented towards value-chain process; axes adaptation and coordination	Value-added process concept	Conceptual/ three case studies	<ul style="list-style-type: none"> <li>- Supply chain and market processes</li> <li>- Country axis (degree of adaptation) and coordination axis (degree of centralized/formalized management)</li> <li>- coordination, configuration and externalization as management dimensions for each value-added process; also in a dynamic process</li> </ul>
Pederzoli, 2008	Internationalization of voluntary chains from a WSK-perspective	Value added chain concept	Case study analysis (N=3) / F, non-food / qualitative	<ul style="list-style-type: none"> <li>- Demonstrate market and supply oriented WSK-activities as well as the management of the whole system</li> <li>- Partnerships which are established abroad constitute a specific characteristic</li> </ul>
Coe and Hess, 2005	Consequences of RI on restructuring of purchase networks, in east Asia and Europe	Power distance concept + GPN (Global Production Networks)	Primary data (N=25; 6 firms) / comprehensive, unspecific / qualitative	<ul style="list-style-type: none"> <li>- RI as two levels: store level and supply level</li> <li>- Analyzed supply chain activities (supply, logistic as well as contracts and control)</li> <li>- Result: no general statements possible because of a broad diversity of options</li> </ul>
Coe, 2004	see Coe/Hess 2005	Power distance concept + GPN	Primary data (single interviews) unspecific / qualitative	<ul style="list-style-type: none"> <li>- see Coe/Hess 2005</li> <li>- Additionally: conceptualize supply chain structures for the new "transnational" RF, i.e. global sourcing is detached by local sourcing</li> </ul>
Fernie, 2004	Overview of SCM, afterwards specific logistics in international operating RF	Value chain, resource based view, transaction cost, network theories	None	<ul style="list-style-type: none"> <li>- Changes in SCM over time (from control and centralization tendencies to just-in-time and relationship management)</li> <li>- Int. differences in logistics, which are not only based on supplier-retailer relationships, but also on differences regarding established formats, logistics cost etc.</li> </ul>
Johansson and Burt, 2004	Differences in supply of store brands (in contrast to manufacturer's brand) between three countries in food retailing	Organizational buying behavior (specific process models + integration concepts)	Case study analyses (approx. 50 interviews in 3 countries with 7 RF), primary data / UK, I, SWE, food / qualitative	<ul style="list-style-type: none"> <li>- Internal integration arises by the degree of vertical and horizontal integration; this affects in turn the buying process and complexity</li> <li>- UK: category management, central decisions dominate, decision processes low but complex because of a lot of input by the HQ; store brands (-buying) integrated in their respective categories</li> <li>- I and SWE: more complex processes because of a lot of process participants; store brand buying is organized separately</li> </ul>
Dapiran and Hogarth-Scott, 2003	Explain differences in category management by power, confidence and cooperation	Category Management (CM), Konzept, Machtkonzept, Kooperationen	Primary data (N=15, with 5 RF as well as 8 suppliers) / UK + AUS, food / qualitative	<ul style="list-style-type: none"> <li>- CM which originally was advocated by supplier to collect more information about customers, can be used as countervailing power</li> <li>- Suggest a new power model for RF to exercise power in the distribution channel depending on supplier- and retail concentration</li> </ul>
Johansson, 2002	Analyze the use of IT-Systems within the buying-/ supply-process of RF in comparison with three countries	Studies concerning organizational buying behavior, value chain perspective	Case studies (approx. 50 interviews in 3 countries with 7 RF), based on primary data / UK, I, SWE, food / qualitative	<ul style="list-style-type: none"> <li>- Purchasing processes: in all countries, operations, contents and sequence of activities are similar, in principle the same basis</li> <li>- Use of IT had only a low impact on buying- and supply process</li> <li>- Degree of vertical integration of retail operations has a significant influence on the process</li> <li>- Buying is increasingly considered as strategic + as inter-functional/ interorganizational process, therefore the configuration is complex</li> <li>- Information (supplier etc.) available, use is problematic</li> </ul>
Lowson, 2001	Analyze supply strategies of European RF	Integrate supply into the value chain process as „operational strategy“	Primary data (N = unspecific) / EU, unspecific / frequencies (without references)	<ul style="list-style-type: none"> <li>- Main supply areas: Asia and Europe</li> <li>- Targets for supplying in the home market: foremost rapidness and flexibility, cost advantages and quality abroad</li> <li>- Purchase order quantity/-mix is seldom modified concerning the supply from Asia, Africa and Central America (before as well as after start of the sales season), more often concerning the supply from EU countries</li> </ul>
Bengtsson, Elg, and Johansson, 2000	Impacts of RI on supplier-/ manufacturer relationships in the home market	Networks, resource-dependency theory	Primary data (N = 621; national store manager) / SWE, comprehensive / correlations	<ul style="list-style-type: none"> <li>- In the context of RI, more suppliers are at the retailer's disposal and simultaneously closer cooperation with existing suppliers gets more important</li> <li>- Main suppliers are more concerned by complementing host market suppliers; both are preparing for the retailers' requirements</li> </ul>
Alpert et al. 1997	Intercultural comparison (USA+J) of the behavior of buyers in opposite to suppliers, specific impacts for US-suppliers in Japan	Unspecific (labelled as relationship marketing + literature concerning Japanese distribution system)	Primary data (N = 103; 16 nat. supermarkets, each ca. 5-7 buyers) / USA, J, supermarkets / MV, ANOVA	<ul style="list-style-type: none"> <li>- Retailer-Supplier relationships are different in J than in USA, high market entry barriers for foreign suppliers in the Japanese market</li> <li>- Buyers in J prefer relationships in the long term; suppliers are relatively loyal; high preference for new products</li> <li>- As a foreign supplier, one should adopt the Japanese culture, ideally hiring Japanese employees</li> </ul>

CM = category management; RF = retailing firm; RI = retail internationalization.

Figure 1: Conceptual framework

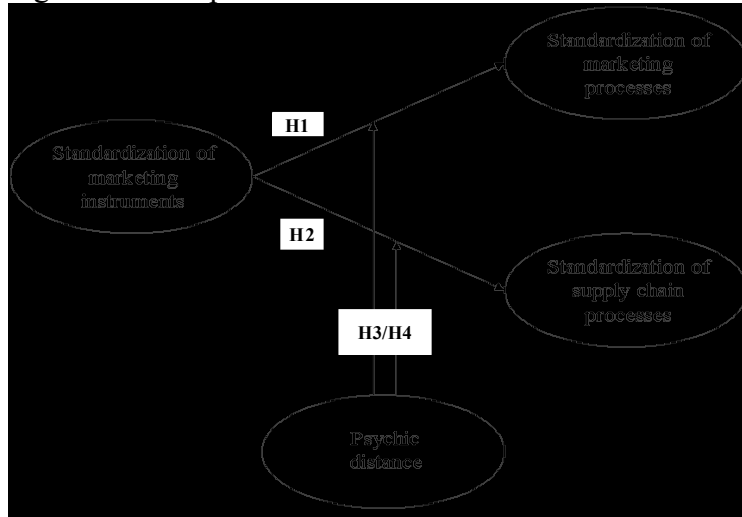


Table 3: Sample characteristics

Total sales in 2006 in Mill. €		No. of employees on average in 2006		Year of first international activity		Percentage of sales abroad		Percentage of employees abroad		No. of operating countries abroad	
MV	Std.	MV	Std.	MV	Std.	MV	Std.	MV	Std.	MV	Std.
6,420	11,160	30,087	64,252	1988	12.01	38.63	24.54	37.40	24.78	15.09	17.97

Table 4: Quality of the measurement of marketing instruments – country level

Construct	Items	Item to total correlation	Factor loadings EFA (> .50)	Explained variance	MV	STD	Strategic relevance (yes in %)
Brand	Retail brand	.355	---	---	4.45	1.019	84.5
MI 1: Strategic instruments	Retail format	.495	.809	28.3	4.12	1.077	73.2
	Store location	.468	.692		3.54	1.324	64.8
	Store layout	.586	.591		3.70	1.230	64.8
MI 2: Tactical instruments	Assortment	.485	-.980	8.7	3.41	1.051	66.2
	Private labels	.354	-.382		3.41	1.463	38.0
	Price	.448	-.465		2.91	1.195	45.1
MI 3: Operational instruments	Service	.468	.624	7.8	3.26	1.252	23.9
	Communication	.371	.564		2.90	1.148	21.1
	Sales Promotion	.356	.586		2.67	1.083	14.2

Cronbach's alpha (> .70) .770; KMO (> .50) .730;  $X^2 = 326.8$  (df = 45;  $p \leq .000$ ); five point scale: 1 = totally differentiate up to 5 = totally standardized compared to home/reference market.

Table 5: Quality of the measurement of marketing processes – country level

Construct	Items	Item to total correlation	Factor loadings EFA (> .50)	Explained variance	MV	STD
MP 1: Product-/Sales-oriented processes	Development of categories/collections	.643	.592	38.1	3.62	1.420
	Planning of sales and distribution	.711	.791		3.06	1.356
	Planning of customer service	.581	.855		2.86	1.250
	Sales promotion/communication	.545	.758		2.94	1.162
	Assortment-/Product development	.601	.727		3.64	1.292
MP 2: Analytic processes	Market/trend analyses	.372	.777	12.4	3.40	1.235
	Store location planning	.529	.682		3.82	1.013
MP 3: Systemic processes	Development of store layout	.417	-.476	5.5	3.89	1.092
	Development of CRM systems	.537	-.498		3.11	1.397
	Quality management processes	.468	-.641		3.57	1.261

Cronbach's alpha (> .70) .844; KMO (> .50) .779;  $X^2 = 581.3$  (df = 45;  $p \leq .000$ ); five point scale: 1 = totally differentiate up to 5 = totally standardized compared to home/reference market.

Table 6: Quality of the measurement of supply chain processes – country level

Construct	Items	Item to total correlation	Factor loadings EFA (> .50)	Explained variance	MV	STD
SC 1: Purchase and logistic	Purchase systems	.737	.808	51.4	3.84	1.254
	Purchase processes	.595	.608		3.69	1.266
	Selection of purchase markets	.607	.644		3.51	1.415
	Selection of suppliers	.732	.825		3.61	1.328
	Purchase logistic	.788	.866		3.64	1.325
	Logistic/Warehouse systems	.664	.694		3.56	1.362
	Logistic processes	.664	.673		3.49	1.297
	Distribution logistics	.719	.757		3.14	1.273
SC 2: ERP systems	Selection of ERP systems	.537	.663	15.6	4.09	1.220
	Selection of IRP systems	.585	.655		4.09	1.187

Cronbach's alpha (> .70) .905; KMO (> .50) .804;  $X^2 = 1143.97$  ( $p \leq .000$ ); five point scale: 1 = totally differentiate up to 5 = totally standardized compared to home/reference market.

Table 7: Correlation matrix of marketing instruments – country level

	Psychically close markets			Psychically distant markets		
	Retail brand	MI1	MI2	Retail brand	MI1	MI2
Retail brand	-			-		
MI 1	.304*	-		.355**	-	
MI 2	-.142 <sup>ns</sup>	.414**	-	-.075	-.324**	-
MI 3	.252*	.473**	-.336**	.550*	.351**	-.365**

\*\*\*  $p \leq .001$ ; \*\*  $p \leq .01$ ; \*  $p \leq .05$ ; ns = not significant.

Table 8: Standardization/adaptation of marketing instruments, marketing processes and supply chain processes – t-tests

Psychically ...	Marketing instruments								Marketing processes						Supply chain processes			
	RB		MI 1		MI 2 <sup>+</sup>		MI 3 <sup>+</sup>		MP 1		MP 2		MP 3		SC 1		SC 2	
	p	MV	p	MV	p	MV	p	MV	p	MV	p	MV	p	MV	p	MV	p	MV
...close market	.176	4.56	.173	3.89	.069	3.39	.088	3.07	.931	3.23	.208	3.72	.470	3.59	.738	3.64	.221	4.17
...distant market		4.33		3.68		3.09		2.80		3.22		3.50		3.46		3.47		4.01
*** p ≤ .001; ** p ≤ .01; * p ≤ .05; + p ≤ .10																		

Table 9: Impact of marketing instruments on marketing processes – country level

	Psychically close markets									Psychically distant markets								
	Model 1: (MP 1)			Model 2: (MP 2)			Model 3: (MP 3)			Model 4: (MP 1)			Model 5: (MP 2)			Model 6: (MP 3)		
	B	$\beta$	p	B	$\beta$	p	B	$\beta$	p	B	$\beta$	p	B	$\beta$	p	B	$\beta$	p
Retail brand	.161	.143	.128	-.012	-.012	.913	-.084	-.081	.355	.226	.275	.020	.080	.104	.386	-.174	-.239	.032
MI 1	-.141	-.132	.223	.072	.076	.557	-.226	-.230	.025	-.236	-.220	.072	-.137	-.138	.273	-.036	-.038	.739
MI 2	-.592	-.606	.000	-.150	-.172	.150	.363	.402	.000	-.511	-.516	.000	-.183	-.200	.101	.364	.416	.000
MI 3	.295	.250	.017	.431	.409	.001	-.329	-.302	.002	.114	.102	.394	.461	.446	.001	-.210	-.213	.064
R <sup>2</sup> (adj. R <sup>2</sup> )	.505 (.474)			.288 (.243)			.570 (.543)			.342 (.298)			.290 (.243)			.406 (.366)		
Df	4			4			4			4			4			4		
F (p)	16.355 (.000)			6.458 (.000)			21.191 (.000)			7.796 (.000)			6.129 (.000)			10.235 (.000)		

Table 10: Impact of marketing instruments on supply chain processes – country level

	Psychically close markets						Psychically distant markets					
	Model 1: (SC 1)			Model 2: (SC 2)			Model 3: (SC 1)			Model 4: (SC 2)		
	B	$\beta$	p	B	$\beta$	p	B	$\beta$	p	B	$\beta$	p
Retail brand	.174	.148	.097	.227	.213	.068	.260	.310	.009	.220	.249	.037
MI 1	.216	.194	.060	.101	.100	.453	-.001	-.001	.994	-.010	-.009	.944
MI 2	-.518	-.506	.000	-.215	-.231	.061	-.472	-.467	.000	-.183	-.172	.147
MI 3	.199	.1661	.100	.199	.177	.165	.018	.015	.897	.437	.365	.004
R <sup>2</sup> (cor. R <sup>2</sup> )	.560 (.532)			.249 (.202)			.342 (.298)			.325 (.280)		
df	4			4			4			4		
F (p)	20.353 (.000)			5.314 (.001)			7.800 (.000)			7.213 (.000)		

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