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Retail internationalization – what can we learn from the business theories?

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1. Introduction

Internationalization is one of the most important trends in retailing today. This process is not new, however has accelerated in the last two decades (Zentes et al 2007). It was less than 30 years ago that almost all of the world's retail firms were pure national firms with a negligible share in foreign markets. That scenario has changed dramatically. Taking a look at the top 200 global retailers, almost all players except those in the US operate in numerous countries, having established a noteworthy business capacity in foreign markets (Deloitte, 2006). Today many retail companies earn a significant share of their revenue in international markets. For instance over 50% of the sales of the German retailer Metro and over 80% of the sales of Dutch company Ahold come from the foreign operations. Internationalization is driven by several push and pull factors. The main pull factors are the increasing purchasing power of Eastern European and Asian consumers and the underdeveloped retail sector of these countries. The most important push factors are the saturated markets in Western Europe and in the United States. Therefore internationalization for retail companies is not only an option rather a necessity to achieve growth. It is observed that going abroad retailers export their business model into new markets having a serious impact on the whole food chain. Therefore they are regarded as one of the driving forces in the development of the agri food business. Reardon argues that retailers and foreign direct investment are more important sources of structural change in developing countries than WTO and trade policy (in Swinnen 2005). Therefore the understanding of retail internationalization is essential to understand the changes in the agri food business. As a result investigation of the driving forces, enablers and processes of internationalization as well as their behaviour in international markets is essential for scientist and practitioners.

Explaining the process of retail internationalization many authors used theories of the wider business internationalization literature. (e.g. Sternquist 1997, Vida and Fairhust 1998, Vida, Reardon and Fairhust 2007). Vida and Fairhust (1998) refer to other scholars and argue that that the application of concept of the wider international business, marketing, management as well as industrial behaviour can contribute to the better understanding of the international retail business. This argument is based on the fact that the retail internationalization (international store operation) is a relatively new phenomenon compared to the internationalization of the manufacture industry. Therefore it can be an advantage to use the extensive business internationalization literature. This wide range literature stimulated by the internationalization of the manufacturer cover several aspects These theories discusses questions such as why multinational enterprises exist (Hymer 1976, Dunning 1981, Buckley and Casson 1976), the management and behaviour of international companies (Bartlet and Goshal 1989) and the process of internationalization (Johanson and Vahlne 1977, 1990). The assumption of the above mentioned retail scholars is that there are some generic characteristics of business internationalization which are similar regardless the industry. Hence these theories can be applied in order to discuss many questions of the multinational retailing. However this topic remained highly debatable. Other scholars (e.g. Wrigley et al 2005, Dawson and Mukoyama 2006, Dawson 2007) argue that retailing has unique features, hence the business internationalization theories are not relevant. For instance, Dawson (2007) states that retailing and processing have very different business models, therefore the relevance of theories developed for the internationalization of manufacturing firms is questioned.

By reviewing the relevant literature we try to overcome this tension between the two stand points. Therefore, we discuss whether and how the business internationalization theories can be applied for retail internationalization In order to facilitate the analysis first we define internationalization and describe its main characteristics. Afterwards we provide an overview of the relevant business internationalization theories to give a basis for the discussion. To investigate if retailing has unique characteristics which result in a different process of internationalization, we will elaborate on the characteristics of the retail business. Based on these we will discuss if the generalised business internationalization theories can contribute to the understanding of the retail internationalization process using examples from the retail business.

2. Business internationalization

2.1. Definition of internationalization

In order to facilitate the analysis of internationalization theories first we discuss the definition and main characteristics of internationalization. There are a large number of definitions of internationalization of businesses (e.g. Johanson and Vahlne 1990, Calof and Beamish 1995), as a result of the extensive literature of the topic. Welch and Luostarinen (1988) state that "internationalization is the process of increasing involvement in operations across borders". This broader definition comprises all international activities such as export and import of products and know how, foreign production. According to the resource based view "internationalization is the transfer of a firm's physical and organizational technologies from one country to another" (Tsang 1999). It emphasizes the need of specific assets which can be exported in other countries.

Johanson and Wiedersheim Paul (1975) argue that the experience of internationalization changes the attitude of the firm towards further internationalization. It is an evolutionary process where the international experience changes the attitude of the firm to internationalization. There are close relationships between this attitude and the actual behaviour. The attitude gives the bases of the international involvement and the experience of international operation influence the attitudes (Johanson and Wiedersheim Paul 1975).

We can summarise the definition and state that **internationalization is a process of increasing involvement in cross national operations, which requires the commitment of**

resources and the adaptation to international markets, changing the attitude of the firm and influencing the decisions on further internationalization.

Internationalization can be classified according to the direction of the process as outward (export of products, foreign production, licensing and franchise) and inward internationalization (for example foreign sourcing, import of management ideas). The international business research tends to focus more on the former, but the inward internationalization has the same significance (Welch and Luostarinen 1993). Firms who operate only in their home market but are engaged in foreign sourcing are international as well as firms who have production plants abroad. Sourcing from abroad firms export their quality requirements therefore they can have a strong influence on the source country. Importing of management practices and technologies have a powerful impact on the home market. Hence the investigation of inward internationalization is an essential question. Retail internationalization is inward oriented for a long time, while outward internationalization became widespread only in the last decades. For instance Wal-Mart sources from international markets since its foundation, but it operates in foreign countries only in the last two decades.

In order to understand the motivation of internationalization it is useful to distinguish between market seeking (MS) and efficiency seeking (ES) internationalization (Dunning 1993, Pearce 2006). A company driven by market seeking internationalization enters a country in order to supply its markets, while other firms seeking efficiency operate in a country in order to minimise costs (eg. production costs). Motivations for the former are the protectionism (eg. Russia), and the market development strategies (like in Central and Eastern Europe) (Pearce 2006). Efficiency seeking firms operate in a country because it has favourable production costs (eg. firms investing in China) or can procure cheaper or better quality products. By the analysis of internationalization these different motivations should be carefully considered.

Statement: internationalization can be according to the direction inward and outward and according to the motivation efficiency seeking and market seeking.

2.2. Business internationalization theories

After defining the phenomenon of internationalization we conduct an overview of the relevant business internationalization theories. There are several theories which explain different aspects of internationalization, such as enablers, drivers, process, location decisions of internationalization and the management and behaviour of multinational companies.

The *market imperfection theory* (Hymer 1976) investigates how a multinational firm that has limited knowledge of local condition therefore has the liability of foreignness can successfully compete on international markets. Hymer states that an international firm must posses internally transferable ownership specific advantages in order to compensate the costs of dealing with new conditions. According to the theory beside the firm specific advantages the imperfect markets stimulate the internationalization. The market imperfections can be classified into four groups:

1. imperfections in the goods market (brand names, marketing skills and product differentiation)
2. imperfections in the factor market (management skills and exclusive sourcing capabilities)
3. imperfections as a result of the economy of scale and scope
4. imperfect competition caused by government policies (FDI supporting interventions).

Hymer stimulated many researchers to elaborate on firm specific advantages.

Similarly the *resource advantages (RA) theory* (Hunt and Morgen 1995, 1996, Hunt 2002) emphasizes the company specific advantages as enablers of internationalization. It states that the firm resources are heterogeneous and imperfectly mobile which result in comparative advantage. The comparative advantage creates competitive advantage and superior business success. A firm enters new markets when it can exploit and develop its comparative advantage for a sustainable competitive advantage (Andersen 1997).

A more complex view is expressed in *the eclectic (OLI) paradigm* (Dunning 1980, 1981, 1988), which states that the internationalization of businesses is motivated by three types of advantages: ownership (firm specific), location (country specific) and internationalization advantages. The ownership advantages are asset specific (ownership of specific assets such as financial capital, specific brand name) and transaction specific advantages (the advantages as a result of multinationality, e.g. the ability of a multinational enterprise to decrease the transaction costs compared to the competitors and external market) (Dunning 1981, 1988). Ownership advantages can be a starting point for the answer of the question "what makes a firm successful?" (Buckley et al 1992). The country specific advantages are benefits which originate from the location of activities in particular countries. These benefits may arise from structural market imperfections such as government regulation (Rugman et al. 1985) and the potential to economize on transaction costs by reducing risks and to benefit from local opportunities (Rugman 1990). The internationalization advantages refer to the relative benefits associated with different entry modes. It builds on the transaction cost theory and states that firms internalize imperfect international markets up to the point when the costs of internationalization exceed the benefits. For instance the preferred mode of entry is foreign direct investment when the net benefits of internalization are higher than the net benefits associated with alternative entry modes (Rugman and Verbeke 1993). There is a critique that the eclectic paradigm is too production oriented, however it was applied for service industries also (Dunning 1989, Buckley et al 1992). Buckley et al (1992) investigating the eclectic theory in the service industry concluded that this theory can help to understand the international behaviour of service firms.

The concept of ownership specific advantages was further developed by Rugman and Verbeke (1993) who distinguished between location bound (LB) and non location bound (NLB) firm specific advantages. The former can be used mainly in a particular location. In the context of FDI, these location bound firm specific advantages cannot easily be transferred and require significant adaptation in order to be used in other locations (Rugman and Verbeke 1993). In contrast the location bound firm specific advantages can be easily taken in new markets hence they can be exploited globally without substantial adaptation. These advantages, such as efficient management skills explain the competitiveness of multinational firms in new markets. Firms internationalize because they can exploit their NLB advantages. Therefore they are major drivers of internationalization.

Statement: the non location bound firm specific advantages and imperfect markets are main drivers of internationalization.

Another aspect of internationalization, the direction of expansion is explained by the strategic behaviour theory (Knickerbocker 1973). It states that companies in oligopolistic industries often imitate the strategic behaviour of the competitors in order to decrease risk and maintain competitiveness (follow the leader theory) (Malhotra et al 2003). "Motivated by the desire to minimize risks under great uncertainty, most firms in oligopolistic industries resort to imitating each move that their rivals make, including the establishment of production facilities abroad" (Malhotra et al 2003). Companies often perceive markets where the competitors enter as less risky. Critiques argue that this theory does not explain the motivation of the first mover, the expansion of the leader company. However this theory can predict the behaviour of some followers and several examples proved from the practice. For instance when US companies invested in Europe, European firms moved in the United States (Malhotra et al

2003). This theory is especially useful to explain retail internationalization as retailing is a strongly oligopolistic industry in many countries.
Another significant branch of international business research explains the process of internationalization. These models are the internationalization process and the innovation related internationalization models. The *internationalization process (Uppsala) model* Johanson and Wiedersheim-Paul (1975) and (Johanson and Vahlne 1977) describes the international expansion as determined sequence of stages starting with export through agents, followed by sales subsidiary and foreign production. The main emphasize is on knowledge development and as a result the foreign market commitment. Internationalization requires both general and market specific knowledge. The later can be developed through experience in international markets, and explains the gradual, step by step internationalization. The general knowledge facilitates the internationalization (Andersen 1992). The knowledge development stimulates foreign market commitment. The market commitment is the amount and the degree of commitment of the engaged resources.
The knowledge about the new market is essential to overcome the psychic distance (the cultural, language, business practice differences). Therefore businesses prefer to start the internationalization in countries where the psychic distance and as a result the perceived uncertainty is the less. This model views internationalization as an evolutionary process, where the experience and knowledge development in international markets drives the internationalization. The main shortcoming of the model is the deterministic characteristic, which excludes the strategic decisions and the individual differences. Companies often follow a different path of growth, and start their international operation with foreign production without any export activities. Leapfrogging is quite common in the international business (Hedlund and Kverne- land, 1984; Bjorkman, 1989; McKiernan, 1992). This model does not explain the internationalization of experienced companies. (Melin 1992) In their restatement Johanson and Vahlne (1990) argue that there are three exceptions :

1. firms with large resources and much experience are able to take larger steps
2. under stable market conditions knowledge can gained in other ways as learning by doing
3. the market knowledge can be transferred to some extent in new markets.

If we want to understand this model and its mistakes better we have to take into account the motivations of internationalization described above. This model explains the market seeking internationalization, therefore problems can start when one try to apply it for firms driven by resource seeking. For example firms often start production in China without exporting goods there. But this internationalization has an other motivation as those explained in the model.
The *innovation related internationalization models* are also behaviourally oriented stage models (Andersen 1992). They confirm the statement of the Uppsala model about the importance of knowledge and experience as determinants of gradual internationalization. These models (Bilkey and Tesar 1977, Cavusgil 1982, Czinkota 1982 and Reid 1981) state that the internationalization process is an innovation and learning for the firm (Andersen 1993). The market commitment is increasing with the increasing international experience. Therefore firms expand step by step their international operation.

Statement: firms internationalize gradually in subsequent stages driven by the increasing knowledge and experience about internationalization. Firms start their international expansion in countries with the least psychic distance.

Regarding internationalization it is a main question how MNEs behave in international markets. In the strategic decision of international companies there was always been a tension between *globalisation and adaptation* to individual customers (Ghauri 1992). The advantages of globalisation are cost based (eg. maximising economies of scale and scope and reducing duplication), while the advantages of adaptation are revenue based (eg. responsiveness to different consumer segments) (Buckley and Ghauri 2004). This tension can be interpreted as "the cost advantages of globalisation versus the revenue advantages of adaptation" (Buckley and Ghauri 2004). Similarly the process school of international business emphasizes the global integration versus local adjustment question (Melin 1992), and is related to the internationalization versus globalization debate. These studies concentrate on the management of international corporations. There are different organization models which explain how a MNE behaves in international markets. Bartlet and Goshal (1989) identified three international orientations, namely the multinational, international and global firms. Each of them is characterized by distinct structural configuration, administrative processes and management mentalities (Bartlet and Goshal 1989). Their framework was further developed by Rugman and Verbeke (1993), who explained the source of their competitive advantage.

The specific consumer needs and market conditions stimulate MNEs to adjust to the local conditions and develop strategies of national responsiveness. This group is classified by Bartlet and Goshal as multinational firms. Their most important sources of competitive advantage are the location bound competitive advantages (Rugman and Verbeke 1993). However according to the eclectic, RA and market imperfection theories multinational firms should posses some non location bound firms specific advantage in order to be able to internationalize. The adjustment to local markets requires a great flexibility, therefore the multinational companies are characterised by dispersed configuration of assets and decentralized management (Bartlet and Goshal 1989).

The international companies replicate their business model in foreign countries without important adjustment. The parent company transfer knowledge and expertise to the subsidiaries. Their competitive advantage originates from the NLB FSA (Rugman and Verbeke 1993). At the same time in their internationalization strategy they put emphasise on the optimal choice of the country and the use of country specific advantages of the host country. They have a dispersed configuration of assets but centralised management. The global strategy takes advantage of the convergence of consumer preferences, and as a result the standardisation of products and processes. This strategy can be characterised by tightly controlled management and centralised operations. The processes are globally integrated. Barlet and Goshal (1989) proposed a fourth strategy, the transnational company, which can integrate the advantages of the global integration and local adaptation. This strategy is called sometimes as glocal in the literature.

This classification is similar as the *E.P.R.G. framework* of Perlmutter (1969) which distinguishes the ethnocentric, polycentric, regiocentric and geocentric strategy orientations as successive stages of development. The first orientation characterises often firms who has not a significant international operation, therefore are not committed to internationalization. Companies export their home business model without substantial modification. They sell the same products and have the same promotion. The polycentric approach emphasise the national differences and develop different strategy for every markets. The decentralised management allows the firms to adjust to the local conditions. However this structure results in control and coordination problems. This orientation corresponds with the multinational organization discussed above. In order to solve the problem of coordination but maintain the market orientation some firms become regiocentric. These companies develop a region specific strategy and concentrate on the similar characteristics of countries in a specific region. The counterpart of the polycentric organization is the geocentric, which develops its strategy on the world market and takes advantage of the product standardization. This approach neglects the differences of different markets. Its main competitive advantage is the economy of scale. This orientation refers to the global strategy in the framework of Bartlet and Goshal (1989).

Statement: according to the degree of global standardization, integration and local adjustment international firms develop multinational, international, global or glocal strategies.

Statement: the above reviewed theories show that the business internationalization literature is rather outward internationalization oriented. The cause of this gap can be the fact that outward internationalization is a newer and more visible phenomenon attracting more attention from the researchers.

3. Characteristics of retail internationalization

In order to discuss the applicability of the business theories for the retail industry, we investigate the characteristics of retail internationalization compared to the manufacturing internationalization. First we provide a brief definition of the retail business. Retailing involves companies who purchase goods from other companies with the intention to resell those to the final consumer generally without major transformation in small quantities (Zentes et al 2007). Retailing has several traditional functions such as:

- **Balance the place differences between production and consumption**: the production and consumption are often in different places. Retailing makes the products, which come from distance places, available for the consumers.
- **Balance the time differences**: the production and consumption happens often in different time (e.g. agricultural production, where the harvest is once a year and the consumption is continuous), retail balances this difference with storage.
- **Balance the quantity differences**: producers produce large quantities while consumers buy only small quantities.
- **Harmonise the production and consumption pattern**: retailers have contact with consumers they know their demand and preferences, they forward this information to the producers.
- **Finance function**: retailer often give credit to the consumers in order to bridge the gap between their demand and financial possibilities.
- **Information share:** retailer give information about the product to the consumers
- **Promotion of the products**: retailers promote the products in their store (e.g. advertisement, discounts)

However today these functions are changing and retailer tend to pass some of them to the processors and taking some other functions from them. Retailers often reduce their stocks and give the storage function to processors. Vendor managed inventories are good examples for this change. Retailers tend to give the responsibility of category management for suppliers giving up the selection of product assortment. On the other hand the private brands are gaining an increasing importance. By the creation of these brands retailers overtake the product planning function of processors. These examples illustrate that the boundaries between the functions of retailers and processors are getting overlapped, hence we can argue that the internationalization of these functions is getting similar.

Statement: the functions of retailers and processors are getting overlapped which makes the internationalization of them similar.

Discussing the characteristics of retailing and processing Dawson (2007) argues that the main differences between their internationalization are:

Strategic objectives: retailers go in new markets in order to increase their sales while manufacturers want to reduce the production costs.
Local nature of the market: retailers have to adjust to the local markets while processors can regard their markets as international or global. The foreign operations of a processor often focus on production that is exported to an other market.
The outlet is the retailer` product: the retailer brings together its services in a sales outlet. The outlet as a whole is consumed. In contrast the processors offer single products.
The network structure of the of retail organisations: the organisational structure of the retailing is characterized by comprising many spatially disaggregated outlets that operate within a network. On the other hand processors have much less operational units.
Large number of suppliers and customers: retailers have much more suppliers as processors. The retailers generate value through the management of relationships with suppliers. In contrast processors generate value by transforming the products.
The cost structures significantly differ in the two industries.
We can accept partly these arguments. First if we take a closer look there is not a significant difference between the strategic objectives of retailers and processors. As we argued in the previous section there are two motivations for internationalization: the resource (efficiency) seeking and market servicing. In the retail context they can be described as international sourcing and exporting of outlets. Similarly processors internationalize with the intention of reducing production costs or serving a new market. We can not compare the market seeking retail internationalization with the resource seeking processing expansion. There are different strategies of both retail and processor companies which adjust to the local markets differently. Some retailers do not adjust (eg Aldi, Wal-Mart), while some international processors follow multinational approach and tailor their products to the specific markets. Both retailers and processors have to reduce costs in order to enhance competitiveness. Therefore the difference is not between retailers and processors rather between different strategies. The outlets in different countries look very similarly, therefore we argue that the third distinction does not make a difference either. Retailers does not transform the products, thus one can argue that the management of suppliers as value creating activity has a much bigger significance. But if we look it closer processors have also a large portfolio of relationships and often manage strategically their suppliers (e.g. supply chain networks). Hence we state that supplier management is equally essential for the two industries. The cost structure is clearly different and can cause differences in internationalization. We argue that it is a more helpful position to look for similarities instead of differences.

Statement: retailers do not have unique characteristics which predict a different process of internationalization. The firm strategies cause the differences in internationalization and not the functions of retailing and processing.

4. Application of the theories in the retail business

After reviewing the most relevant theories and discussing the characteristics of retailing, in this section we put the theories in the retail context. We discuss how business internationalization theories can help to understand the retail internationalization process. Building on the definition of internationalization explained in the beginning retail internationalization can be defined as a process of increasing involvement of retail companies in international operations, which can be inward and outward, and market seeking (sell of goods) and efficiency seeking (international sourcing). National retailers (e.g. Edeka) source also their products internationally. This form of internationalization is often overlooked. But it has strong influence on the agri food business of the source countries as retailers require suppliers also in these countries to meet their private standards.

The different motivations for internationalization are emphasized by Hollander (1970) who distinguishes among resource seeking and efficiency seeking internationalization. This differentiation is also stated by Zentes et al (2007) who argue that retail internationalization has two elements: sourcing and selling. Many studies focus on market seeking internationalization, though the efficiency seeking internationalization is equally relevant for the retail internationalization research. Coe and Hess (2005) argue that these inter linked and overlapping dimensions of internationalization namely store operation and sourcing, make retailing a fertile are for research.

The significance of firm specific advantages as enablers of internationalization is a common characteristic of several theories. From the market imperfection, resource advantage and the eclectic theory we can conclude that retail companies should posses firm specific advantages in order to compete in international markets. These are regarded in many studies as superior management and the ownership of specific assets. For instance ownership specific advantages are the volume buying, the superior supply chain management of Aldi and Wal-Mart and the private brands of discount retailers which can be easily exported and enhance competitive advantage in foreign countries. The capability to gather, store, monitor and analyse information is a key firm specific advantage (Dunning 1989) in Buckley et al 1991. As Mulhern (1996) argues the collection of consumer information is a key driver of the integrated retail management. The capability to adapt to new markets is also part of the knowledge of international retailers and therefore a significant resource (Dawson 2007).

According to the market imperfection theory the imperfect markets make possible for firms to exploit their competitive advantages. The imperfections in the goods markets, the increasing role of the brands give way to the private branded products of retailers. Imperfections on the factor markets stimulate the use of unique sourcing capacities. The imperfections as a result of economy of scale are regarded as one of the most important sources of competitive advantage of international retailers.

Sternquist (1997) applied the eclectic theory of Dunning for the retail business in order to explain the internationalization of US retail firms and developed the Strategic International Retail Expansion Model (SIRE) model. She intended to make a holistic explanation of retail internationalization. She emphasised the importance of the ownership advantages and distinguished between asset and transaction based advantages as Dunning (1988), but explained the later differently. She argued that transaction advantages come from the way as things are done (e.g. volume buying). The transaction specific advantages were introduced by Dunning as advantages which are provided by the multinationality in contrast to new or local companies. In retailing they can be interpreted as economy of scale and scope. International retailers invest in regional distribution centres which enable them to distribute the goods more efficiently. They can use private brands and marketing tools in many countries gaining economy of scope.

Similarly to the drivers and enablers business internationalization theories are used to discuss the direction of retail internationalization. Some authors argue that international retailers follow each other in new markets. One reason is that they associate the country invaded by the competitors as less risky. This observation corresponds with the strategic behaviour theory. The direction of internationalization is often explained with the internationalization process model, arguing that companies start to invade countries with the less psychic distance, just later go in more distance countries. But this model is regarded in the literature as controversial. Sternquist (1997) accepts this thesis, while Vida and Fairhust (1998) discuss this question providing examples pro and contra. Other authors refuse the model The examples of Vida and Fairhust include US retailers and other companies who started their expansion in Canada, UK and Australia, Australian firms expanding in New Zealand and European firms moving to the neighbouring countries (Douglas and Craig 1992, Treatgold 1988, 1991, and Welch and Luostarinen 1988) On the other hand they cites Benito and

Grispud (1993) who have found that the market selection of service and processing industries is a discrete choice rather than a cultural learning process. Some other authors argue also that psychic distance can not explain nowadays the internationalization of retailers. Burt et al (2007) argue that market attractiveness has a more important role by the expansion of retailers. They state that the expansion of Ahold (Spain 1976, USA 1977, Czechoslovakia 1991, Portugal 1992 and Poland 1995), Delhaize and Carrefour can be explained better with the market opportunity (market pull) thesis than with a pre planned strategy based on geographical or cultural proximity. One explanation of the problems associated to the internationalization process model is the changed business climate. In the 1970s, when the international process model was developed, the technological, political and socio economic environment was clearly different. The spread of internet made communication, therefore information collection, control and coordination easier. The collapse of the Soviet Union, the Asian financial crises and the increasing purchasing power of the Eastern European consumers stimulated a new pattern of internationalization. Nowadays many firms go in distance markets without collecting experience in neighbouring countries.
The globalisation versus adaptation debate is also vital in retailing. As we defined retailing is buying and selling of goods to the end consumer. Different retail strategies focuse on these two elements differently. The procurement based strategies take advantage of the standardization of processes and the reduction costs (eg. Aldi), while market based approaches focus on adjustment, product diversification (eg. Carrefour). Retailers tend to concentrate on these aspects to different extent leading to strategies between the two extreme of production and market orientation.
The framework of Bartlett and Ghoshal (1989) can be applied to analyze the behaviour of retailers in international markets. Clearly there are retailers who replicate their business model in new markets without major modification developing international strategy. Examples are Aldi, Lidl and Wal Mart. Some of them tend to take advantage of the convergence of consumer preferences and the economy of scale and scope and start to create global strategy. However the global integration of processes and management is not achieved yet, therefore there is no real global strategy in the retail business. Other retailers adjust more to the local conditions and have multinational strategy (e.g. Carrefour). But the subsidiaries are not fully independent and there is integration in the procurement processes. Therefore we think there is no real multinational strategy either. The glocal strategy can be observed often when the procurement processes are centralized but the subsidiaries have flexibility to select the assortment. The firm specific advantages of retailers influence their strategy. For example firms owning superior supply chain management skills and strong supplier relationships are likely to take advantage of the global integration and adapt an international orientation. We can conclude that the framework is a useful guideline for the analysis of internationalization strategies, but in the reality the strategies are more complex.

5. Testing the theories

In order to verify our findings and test the theories we have used examples from the practice. We investigated the internationalization of leading retailers using case studies, consultancy reports, news paper articles and the website of retailers. We divided our findings into three parts reflecting the main theoretical topics: enablers and drivers of retail internationalization, direction of internationalization and globalization versus adaptation.

5.1. Enablers and drivers of retail internationalization

The examples confirmed that the firm specific advantages, international experience and knowledge development facilitate internationalization. In the following section we discuss our results.
Firm specific advantages are preconditions of internationalization. As the former CEO of the Metro Group told in an interview (Bell 2004) a retailer should have a success story (company specific competitive advantage) in order to compete in new countries. If we look at the leading retailers they posses firm specific advantages. For instance the main competitive advantage of Metro is the advanced Cash and Carry concept, while for Carrefour it is the hypermarket format. Aldi invented the discount retailing and owns retail brands which can not be easily copied by competitors. Aldi and Lidl emphasizes that their international strategy is based on the strict application of the discount concept. On the other hand there are also advantages from the multinationality (describes as transaction specific advantages above). As the Metro CEO told being an international retailer should result in some benefits. These advantages come from the synergies and economies of scope. Common group wide buying and logistics and spread of management skills and know how are examples of these advantages.
Retailers go abroad when they can exploit their firm specific advantages. For instance before going in a new country Metro analysis the market and investigate whether it is suitable for cash and carry (Bell 2004). The company enters a new country usually with this format. The cash and carry is the main competitive advantage of the company and its aim is to exploit and develop this format as much and possible (Bell 2004).
The internationalization is a complex process, therefore it is useful to explain it with the more complex eclectic paradigm. From the example we can learn that firm specific advantages as drivers influence the location. Companies asses the advantages offered by the country and investigate how their core business competence can be applied there. Metro targets the developing countries, while Aldi enters only mature markets. After they have decided which country to enter, they should select the entry mode. As the former Metro CEO told, they enter a country with joint venture when a partner is required or when it is difficult such as Japan. Otherwise Metro prefers to go alone. The characteristics of the firm specific advantages and the country influence the entry mode. When the competitive advantage can be easily copied or the country does not require an extensive market specific knowledge companies prefer to go alone. Otherwise they establish joint ventures, licences, or franchise partnerships.
The examples show that internationalization develops both the general knowledge and market specific knowledge. Metro Cash and Carry France has an extensive know how in fresh products. This know how helped the company to improve fresh product supply chain in other countries. The company learned also to internationalize. Metro has developed a concept for assessing new countries. The company sends a team consisting of managers in the country. They make a comprehensive feasibility study. Afterwards they discuss the opportunities with the key suppliers. This process has developed by the experience of internationalization. Metro emphasizes the importance of market knowledge and the adaption to the local taste. This market specific knowledge enables the company to meet the local demand. Therefore this concept facilitates further internationalization.

5.2. Direction of internationalization

The early expansion of retailers supports the international process model but later companies tended to start expansion with more distanced countries. Retailers in the 1960/70s entered first psychologically close countries, where the culture, political, socio economic conditions are similar. For example the German retailer Metro started its expansion in the Netherlands followed by Belgium, United Kingdom, France, Austria and Denmark before going in Central and Eastern Europe and Asia The French company Carrefour, entered Belgium (1969); Italy

(1969); Switzerland (1970); UK (1972); Spain (1973); Brazil (1975); Austria (1976); and Germany (1977) which supports the process model. However the later move of Carrefour is more random (Argentina 1982, Taiwan 1989, 1991 Greece). For discount retailers the internationalization process model is especially valid. They enter countries which are similar as their home markets. The German discounter Aldi invaded first Austria, Netherlands, Belgium and Denmark and the United States. Lidl is active only in European markets such as France, United Kingdom, Italy and Spain. They entered Central Europe only when the market conditions become similar to Germany.

Later, in the 1990s, retailers entered distance countries without going in neighbouring countries before or experienced international retailers showed a dispersed internationalization process. For example the British retailer Tesco started its internationalization in Central Europe and established a leading position followed by the move in Asia. Carrefour continued its expansion in China (1995), Thailand (1996), Poland (1997) and Slovakia (1997). This new process can be explained by the change in the technological, political and socio economic environment. The easier access to knowledge, advanced information systems, the development of the market economy in Central and Eastern Europe and Asia and increasing purchasing power of consumers offered the unique market opportunity. The market opportunity especially stimulated companies to take more risk.

Another reason can be the increased knowledge and experience of retailers. In the first period retailers learned the process of internationalization such as evaluation of market opportunities, necessary adaptation of their core business models to the new countries and building up supply chains.

If we see the timing of the country entries we can argue for the strategic behaviour theory. Retailers tended to move into Central Europe in the beginning and the middle of 1990s, in China from the middle of 1990, in Eastern Europe from the end of 1990s. One can argue that retailing is an oligopolistic industry therefore retailers have to take into account the other's move. Other explanation can be the advantage the first mover. Some author argued that the first mover had clear advantages in Central and Eastern European markets. Therefore retailers try to enter the country approximately at the same time as the others. However it is not easy to show how much does the market opportunity and how much the strategic behaviour theory influence internationalization. We can conclude that strategic behaviour theory and market opportunity explain together the process of retail internationalization.

Considering the different strategies we can argue that companies who are market oriented move more likely in developing markets. Their competitive advantage is the ability to adapt to the local taste and position themselves as market responsive quality retailers. In contrast the resource based retailers tend to go in psychologically close countries, where the culture, socio economic and political conditions are similar. They can exploit their firm specific advantages there without substantial adaptation. The market infrastructure is already developed and the consumers got used to the modern retailing in the mature markets. Therefore a second advantage is that these late comer retailers do not have to invest too much in these issues.

However this can change in the future. As discounters went in countries with different conditions as their core market, such Aldi in the US and United Kingdom, and learned how to deal with very different market features, and how can they adapt their concepts, one can expect further expansion in more distanced countries. We think that in the future these companies will go increasingly in developing markets.

5.3. Globalisation versus adaptation

The examples show that companies have different attitude towards globalization and adaptation, however every company have to adjust to the local conditions to some extents. The discount retailer Aldi had to increase by 25% the number of its product lines in France and reposition itself as a quality retailer carrying premium retail brands and leading manufacturer brands in the UK (Zentes et al 2007). However its main competitive advantage remained the cost control based on standardization and efficient integration. The other leading discounter, Lidl also concentrate mainly on the cost based advantages of globalization. The retailer applies a strictly hierarchic management system, and focuses mainly on the cost reduction. These strategies are not far from the international strategy of the Bartlett and Ghoshal (1989) framework. In contrast Carrefour applies a multi format strategy owning hypermarkets, supermarkets, discounters, convenience shops and cash and carry businesses. It enters a country with the appropriate format adapting it to the local demands (Burt et al 2008). Metro emphasizes the national responsiveness and try to tailor the assortment to the local taste. Its management is getting more and more decentralized allowing the flexible adjustment to the special countries. Only the main strategy and financial goals are defined by the central management, while the country managers have freedom in the operational decisions. (Metro 2009, Bell 2004). These two retailers remind on the multinational strategy of the Bartlett and Ghoshal (1989) classification. However the examples support our view that the framework is only a guideline and the real strategies are between the extremes of international, global and multinational strategies.

6. Summary and outlook

The aim of the paper was to discuss the applicability of the business internationalization theories on the retail sector. Therefore first we explained the definition and different forms of internationalization. We emphasized the difference between the resource and market seeking internationalization. Afterwards we conducted an overview of the most relevant theories explaining the drivers, enablers, process and direction of internationalization as well as the behaviour of companies in foreign markets. They are complementary in explaining the internationalization of companies. Furthermore they have several similar characteristics. They emphasize the significance of the firm specific advantages and the influence of knowledge and experience in the internationalization process. They show some generic characteristics of internationalization therefore they can help to understand the behaviour of international firms. We found that the literature of international business is rather outward internationalization oriented, however inward internationalization has a long tradition and strong impacts on the home and host countries as well. Therefore the investigation of the drivers and new trends of inward internationalization is a promising topic for future research.

We discussed the characteristic of the retail business and the process of retail internationalization and concluded that there is not a significant difference between the retail and processor internationalization. The traditional functions of retailing and processing are getting overlapped. Hence the business theories can help to provide useful insights into retail internationalization. We think it is a better position if one looks the similarities instead of differences on a strategic level. We argue that the different firm level strategies determine internationalization and not the functions.

We discussed the application of the generalised business theories on the retail context using examples stating that there are some theories which can clearly contribute to the better understanding of the development of retail internationalization. For example firm specific advantages are important as drivers of internationalization and they influence the strategy of international retailers. Other theories can be used more carefully, however not because of the special characteristics of the retail business, rather as a result of the development in the business environment in general.

The theories proved to be useful to conduct ex post analysis, but if we want to predict the future we have to develop the theories. By doing this the firm strategies should be investigated in-depth as they influence the internationalization process. The internationalization is part of the overall firm strategy, therefore if we want to understand their international behaviour first we have to understand better their strategy. We have to investigate the strategy formation and the logic of the behaviour of firms. We can connect this knowledge with the existing theories of internationalization. This research can facilitate the better understanding of the behaviour of firms in foreign markets.

We can conclude that there are some generic features of business internationalization that are the same in all sectors, thus the business theories are useful to explain retail internationalization. On the other hand we would argue, if one investigate special features of retail internationalization should be careful and look for special characteristics which can be the case in some processes.

Key messages: Retail and processing internationalization is getting similar. The main difference in the internationalization of firms is in their strategy and not in their functions. The existing theories are useful for ex post analysis but if we want to predict the future behaviour of international firms we have to conduct more in-depth research in their strategy and the interrelationship between their strategy and the internationalization process. Furthermore we would like to stress that the international business literature is outward oriented and the research in inward internationalization is a promising topic for the future.

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