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Institutional and economic determinants of transnational retailer expansion and performance: a comparative analysis of Wal-Mart and Carrefour

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Abstract. In the context of a wave of retail foreign direct investment and increasing recognition across many disciplines of the profound developmental implications of transnational retail within the global economy, this paper examines the institutional and economic factors determining the performance of transnational retailers via a comparative analysis of the two global leaders in the industry, Wal-Mart and Carrefour. A conceptual framework is offered for explaining the heterogeneity of retailer performance in international markets, and three types of explanation are considered: the timing and mode of market entry and subsequent expansion, factors that allow the exercise of upstream market power, and sensitivity to issues of labour organization and standards. The two retailers are found to be differentially impacted by those factors, indicating the need to consider a process of institutional hybridization as central to the explanation of transnational retail performance.

1 Introduction
The late 1990s witnessed a powerful wave of retail internationalization as leading retailers from Europe and the USA entered new growth markets, especially in developing countries (Coe, 2004; Dawson et al, 2006; Reardon et al, 2003; Wrigley, 2000). This process had two strongly interrelated dimensions: the internationalization of stores and the globalization/regionalization of supply networks (Coe and Hess, 2005; Dawson and Mukoyama, 2006). In this paper we will focus mainly on the internationalization of store (selling) networks by transnational retailers, and consider global supply chains only as far as store-network performance in international markets is concerned.

The burst of retail foreign direct investment (FDI) was driven by consolidating Western retail markets, and by the emergence of lead firms within those 'mature' and often increasingly tightly regulated markets (for France and the UK see Guy, 2006; Moati, 2001; Wood et al, 2006) that were able to leverage their increasing core-market scale and free cash flow for expansionary investment in potentially higher growth 'emerging' markets (Wrigley, 2000). The process was facilitated by access to low-cost capital but, most significantly, by policies of full or partial liberalization of retail FDI in many emerging economies.

A significant literature has begun to emerge across several disciplines in the social sciences which focuses on the nature, host economy impacts, and policy implications of the unprecedented wave of retail FDI (see, for example, Coe and Wrigley, 2007; Durand, 2007; Humphrey, 2007; Reardon et al, 2007). That literature acknowledges that the multidimensional embeddedness of retail activity implies a high sensitivity of transnational retailers to institutional context—both that of the host markets entered and that of the home markets from which the retailer has emerged. Attempts have been made to conceptualize those host and home market institutional influences. Wrigley et al (2005), drawing on Hess (2004), highlight both the *territorial* and *network embeddedness* in local institutional networks, business systems, supply chains, and cultures of consumption, which transnational retailers must invest in and seek to achieve to gain what Bianchi and Arnold (2004) describe as 'organizational legitimacy' in the host markets they enter. They also consider the *societal embeddedness* of transnational retailers in the institutional, regulatory, and cultural context (eg the national-level industrial relations systems, and company practices) of the home markets from which they have emerged. In addition, the consequences of societal embeddedness for retailer performance in international markets—that is, the consequences of exporting a 'variety of capitalism' in the sense of a corporate culture and business practices shaped by the institutional environment of the home market—have been considered via studies of the contrasting cases of Swedish-origin and US-origin transnational retailers IKEA and Wal-Mart, respectively (Christopherson, 2007; Christopherson and Lillie, 2005; Konzelmann et al, 2005). However, to our knowledge there have been no attempts up until this point to more systematically assess (or, indeed, to empirically 'model') the performance of transnational retailers in relation to the wider range of institutional and economic conceptualizations and explanations offered within the emerging cross-disciplinary literature on the rise of transnational retail in the global economy.

In this paper we provide such an analysis focused on a comparative evaluation of the performance of the two global leaders in the industry, Wal-Mart (http://www.walmartstores.com) and Carrefour (http://www.carrefour.com). Our work draws on data provided by those firms to the US Securities and Exchange Commission (SEC, http://www.sec.gov) and the French Autorité des Marchés Financiers (AMF, http:www.amf-france.org) and on information extracted from the Centre d'Études Prospectives et d'Informations Internationales (CEPII) institutional database (http://www.cepii.fr/francgraph/bdd/institutions.htm). It is further informed by case-study material available in the literature.

The paper is structured as follows. In section 2 we begin by presenting some background information and stylized facts about the international trajectories of Wal-Mart and Carrefour. We then develop measures of both the relative penetration of the international markets entered by the firms and the relative dynamism of each subsidiary operation—finally combining the two measures into a single indicator which we term the *relative development* (or, alternatively, the *relative performance*) of each international subsidiary of the transnational retailer. Next we demonstrate that simple macroeconomic factors appear to be inadequate in explaining variation in 'relative development/performance' across the two firms. As a consequence, in section 3, we explore and develop a richer conceptual framework which we believe provides a more effective route towards explaining the heterogeneity of retailer performance in international markets. That framework, building on five different theoretical perspectives offered within the social sciences, is summarized in figure 5. In turn, it leads us to consider and explore three different kinds of explanation of the performance of retailers' international subsidiaries—explanations relating to the timing and mode of market entry and subsequent expansion, the retailers' ability to exercise and benefit from upstream market power, and the sensitivity of the transnational retailers to issues of labour organization and standards. In sections 4, 5, and 6 those explanations are explored empirically. Finally, in section 7, table 5 synthesizes our results, provides evidence of important differences between firms in the factors which are determining their international performance, and suggests that a process of institutional hybridization is central to the explanation of transnational retail performance.

2 The internationalization of Wal-Mart and Carrefour: some stylized facts

Starting from very different initial positions in the early 1990s, over the past fifteen years both Wal-Mart and Carrefour have progressively increased their international scale and scope. However, the retail internationalization process is risky and discontinuous as shown by the withdrawal of both firms from a number of countries of operation during the period since 2000. In this section we first describe Wal-Mart's and Carrefour's trajectories of expansion and contraction in international markets, and then develop a measure of the relative development or relative performance of the firms in each of their international markets of operation. Finally, we assess to what extent variation in retailer performance across those markets can be accounted for by simple macroeconomic factors.

2.1 Internationalization in a context of growth

Carrefour preceded Wal-Mart as an international operator. It entered Spain, Brazil, Argentina, and Taiwan during the 1970s and 1980s, and enjoyed considerable 'first-mover' benefits (Daumas, 2006; Wrigley, 2000). We will not examine those initial moves in this paper. Instead, we will concentrate on the period 1991 – 2006, during which Carrefour was joined as a transnational operator by several other Western retailers (Metro, Wal-Mart, Tesco, Ahold, Auchan, Casino), and in which Wal-Mart gradually but resolutely increased its commitment to international markets.

Although they are the two global leaders of the retail industry, Wal-Mart and Carrefour differ significantly in size. In 2006 Wal-Mart's sales (US $335 billion) were three and a half times those of Carrefour. However, both companies have displayed strong trajectories of growth over the period 1991 – 2006 (figure 1). Wal-Mart's growth rate averaged almost 15% per annum. That largely resulted from supercentre-driven growth in the domestic US market (Wrigley, 2002) as Wal-Mart emerged to become the leading US food retailer. But, it also reflected progressively increasing international sales—from less than 4% in 1995, through 17% by 1999, to more than 20% by 2005, propelling Wal-Mart into the position of the world's leading transnational retailer with more than $60 billion in international sales (see table 1). During the same period, Carrefour became the second largest retailer in the world after its merger to Promodès in 1999. A subsequent increased preoccupation of management with financial profitability, in part to deter the threat of hostile takeover, then resulted in Carrefour's development path being much more uneven than that of Wal-Mart. As a consequence, its average annual growth rate of sales over the entire period (13%) was lower than that

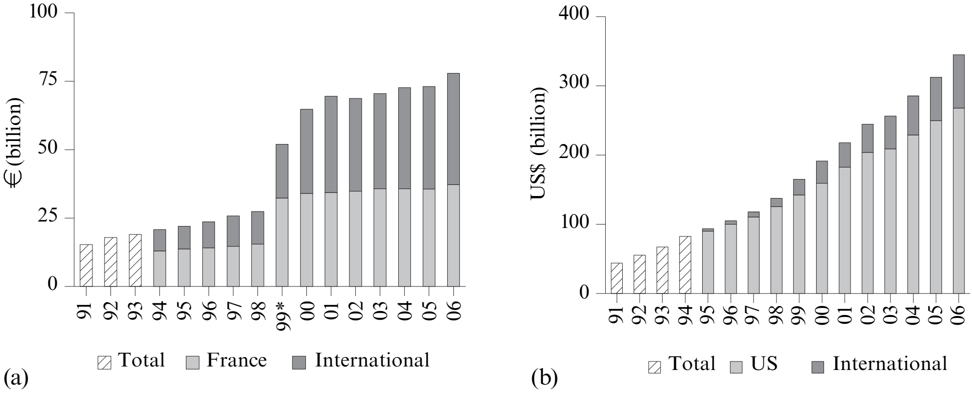

Figure 1. Domestic and international sales of Carrefour and Wal-Mart (1991 – 2006): (a) sales growth and composition of Carrefour (* indicates merger with Promodès); (b) sales growth and composition of Wal-Mart.

Table 1. Leading transnational retailers, ranked by sales outside home market, 2005 (from Coe and Wrigley, 2007).

Rank	Firm	Country of origin	International sales (US $ million)	International sales (% of total)	
				1999	2005
1	Wal-Mart	US	62 700	14	20
2	Carrefour	France	50 050	38	52
3	Ahold	Netherlands	45 352	76	82
4	Metro	Germany	38 502	40	54
5	Aldi	Germany	20 119	33	45
6	Lidl & Schwarz	Germany	19 832	20	43
7	Tesco	UK	19 640	10	24
8	Auchan	France	19 535	19	45
9	Delhaize	Belgium	18 893	83	79
10	IKEA	Sweden	18 868	92	92
11	Tengelmann	Germany	16 706	48	51
12	Rewe	Germany	15 207	20	31
13	Ito-Yokado	Japan	12 010	30	34
14	Casino	France	11 849	21	42
15	Pinault	France	11 775	48	46

of Wal-Mart but nevertheless sales still multiplied five times. A significant element of that growth was a result of international activity as sales in the domestic market (except those gained by acquisition) became relatively static. Between 1994 and 1998, therefore, the international share of Carrefour's sales grew from 37.7% to 43.4%; but between 1999 and 2006, following the merger with Promodès, international sales of the merged company increased from 38% to 52%. As a result, when ranked in terms of their sales in international markets, Carrefour and Wal-Mart are far more equivalent in scale as transnational operators—[sales of $50 billion and $63 billion, respectively in 2005 (see table 1)].

2.2 International diversification and divestment

There have been three distinct periods in Wal-Mart's internationalization (Burt and Sparks, 2006). Initially, between 1991 and 1994, Wal-Mart made cross-border moves into the adjacent Mexican, Puerto Rican, and Canadian markets. The second phase (1994–99) involved a resolute opening to other regions of the world. During this period the Arkansas-based firm tested new markets in Latin America, Asia, and Europe, and then attempted to build more dominant positions. After 1999 a third phase, characterized by greater priority being given to the financial performance of the international operations, began. The new strategy facilitated both the acquisition of strongly established firms and selective divestment of underperforming markets (eg South Korea and Germany) to strengthen overall international performance. Previous Wal-Mart withdrawals from countries had either been forced exits for political reasons and/or involved only a small number of stores [for example, Hong Kong in 1996, and Indonesia in 1998 after one of its stores had been burned during the riots that followed the Asian financial crisis (Steidtmann, 2003)], rather than strategic divestment of sizeable operations in order to improve overall international performance.

Carrefour has a longer history of international investment, with investments in Spain and Latin America since 1973. It was also a first-mover transnational retailer in Asia, entering Taiwan in 1989. Failure of its market entry into the US between 1988 and 1993 (see Dupuis et al, 2006) did not prevent it from accelerating its internationalization more generally—indeed, between 1990 and 2006, Carrefour entered twenty-nine new countries.

However, around 2000 and following rapid growth of the firm in 1998/99, as a result of acquisition of Comptoirs Modernes and merger with Promodès, Carrefour's international strategy experienced a significant shift in orientation. A major increase in debt as a result of the merger and acquisition activity implied more direct exposure to the requirements of the financial markets. Moreover, the firm was impacted by both the Asian economic crisis of 1997/98 and the Argentine financial crisis of 2001/02. As a result, Carrefour modified its strategy, focusing more on organic growth and seeking to achieve profitability by exploiting the strategic positions acquired during its long period of international expansion and by divesting weaker market positions. After exiting the Hong Kong market in 2000, Carrefour decided to divest its insufficiently profitable operations in Chile, Mexico, Japan, South Korea, the Czech Republic, and Slovakia. The objective was to keep only those subsidiaries which already had market leadership or which had the potential to become one of the top three operations in a market.(1) In common with other transnational retailers (eg Tesco and Wal-Mart), Carrefour also engaged in multiformat (lower capital intensity) international expansion focused on its Dia chain of small-format discount stores.

Wal-Mart and Carrefour's withdrawal from several countries (table 2) is significant in the trajectories of both firms. It implies the abandonment of intangible investments [the acceptance of exit sunk costs (Clark and Wrigley, 1997)] linked to the firms' attempts to achieve territorial embeddedness in those markets. However, this does not imply the end of the internationalization process of either firm. The constraint of 'mature' domestic markets still remains and constitutes a powerful push towards international growth. As a result, Wal-Mart has recently strongly reinforced its position in Latin America, acquiring the operations of Ahold in Brazil and taking control of CAHRCO in Central America. It has also strengthened its operations in Asia, entering Japan in 2005, progressively building its position in China, and becoming a first-mover entrant to India (*BBC News* 2006; Leahy, 2007). In the case of Carrefour, although the firms has become more cautious in its international operations compared with how it was in the 1990s—continuing to announce exists from underperforming markets such as Switzerland and Portugal (*Les Echos* 2007)—conversely, it has continued to push into a new wave of potentially rapid-expansion markets, such as Russia (Visseyrias et al, 2007) and Bulgaria (*Radio Bulgarie* 2008) in 2008, as well as announcing its plans to enter the Indian market.

2.3 An indicator of the relative performance of the subsidiaries

The stylized facts presented above illustrate the heterogeneity of the two retailers' performance in international markets. To appreciate further the different extent of success or failure in those markets, we have developed an indicator of relative development (or, alternatively, relative performance) of each international subsidiary (figure 2). That indicator is a combination of two measures: the 'relative penetration' of each market entered by the firm and the 'relative dynamism' of each international subsidiary compared with the other subsidiaries of the firm.

To measure the relative penetration of the market, we constructed a ratio of the square metres of a retailer's operating space in the market to the GDP of each country in 2002. To measure the relative dynamism of the subsidiaries, two approaches are adopted. In the case of Carrefour the indicator compares, for each subsidiary, the growth rate of sales during the 2003–06 period against the average growth rate of all the subsidiaries. In instances where the firm has withdrawn from a country, the

(1) For a more general discussion of the period of competitive 'shakeout' and asset redeployment affecting transnational retailers in the early 2000s see Coe and Wrigley (2007, page 353) and Dawson (2007, page 378).

Table 2. Market entries and exits of Carrefour and Wal-Mart since 1991—subsidiaries and stores operated under franchise (sources: http://www.carrefour.com, http://www.walmartstores.com, and financial press).

	Carrefour		Wal-Mart	
	entry	withdrawal (number of of stores)	entry	withdrawal (number of of stores)
1991	Greece and Cyprus (Promodès)		Mexico	
1992	Portugal	USA (4)	Puerto Rico	
1993	Italy Turkey			
1994	Malaysia Mexico		Canada Hong Kong	
1995	China United Arab Emirates [a]		Argentina Brazil	
1996	Thailand South Korea		China Indonesia	Hong Kong (3)
1997	Poland Chile Singapore Hong Kong		South Korea Germany	
1998	Indonesia Colombia			Indonesia (2)
1999	Czech Republic and Slovakia		United Kingdom	
2000	Japan Oman [a] Belgium Qatar [a] Saint-Domingue [a]	Hong Kong (4)		
2001	Switzerland Tunisia [a] Romania [a] Norway [a]			
2002	Egypt [a]			
2003		Chile (7)		
2004	Saudi Arabia [a]			
2005	Algeria [a]	Mexico (31) Japan (8 sold under franchise contract) Norway (breach of franchise contract)	Central America (Guatemala, Salvador, Honduras, Nicaragua, and Costa Rica) Japan	
2006		South Korea (31) Czech Republic and Slovakia (15)		Germany (88) South Korea (16)

[a] Stores operated by franchise. These were not considered further in the paper because of lack of data. Stores in Romania were integrated in 2006.

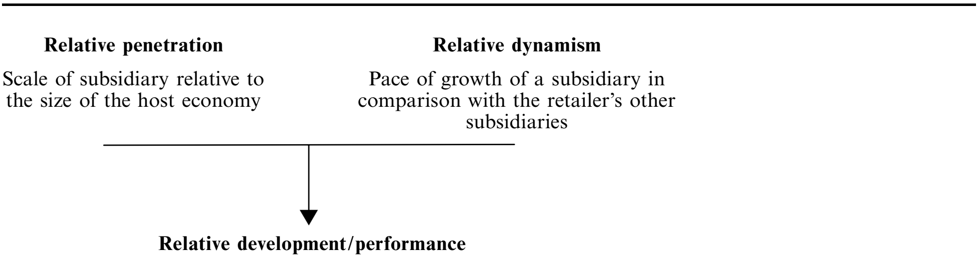

Figure 2. Conceptualization of an indicator of the subsidiary's relative development/performance.

growth rate for the subsidiary for that year is set at −100%. In the case of Wal-Mart, the principle and the period are the same; however, given that the sales of each subsidiary are not publicly available we proxied the growth rate on the basis of the growth in operating space. The synthetic indicator of relative development/performance of each subsidiary is then defined as a simple average of the two measures, each one having been restricted to a range of 0 to 1. Tables 3(a) and 3(b) present the values of these measures for Carrefour and Wal-Mart, respectively.

Next, we compare the indicator of relative development with simple macro-economic measures of GDP per capita and the average annual GDP growth rate (figures 3 and 4). No relationship can be detected, with the exception of a negative relationship (correlation coefficient = −0.26) between the relative development of Wal-Mart's subsidiaries and GDP per capita, which suggests Wal-Mart has enjoyed a greater international success in lower GDP developing economies.

Table 3. Relative development, penetration, and dynamism indicators for (a) Carrefour's subsidiaries; (b) Wal-Mart's subsidiaries.

	Relative development	Relative penetration	Relative dynamism		Relative development	Relative penetration	Relative dynamism
(a) Carrefour							
Argentina	0.64	1.00	0.28	Thailand	0.36	0.12	0.61
Turkey	0.62	0.24	0.99	Switzerland	0.34	0.18	0.50
Colombia	0.58	0.16	1.00	China	0.32	0.25	0.39
Portugal	0.57	0.51	0.63	Italy	0.32	0.00	0.55
Spain	0.56	0.58	0.55	Singapore	0.27	0.02	0.53
Greece	0.50	0.30	0.69	Malaysia	0.27	0.06	0.48
Indonesia	0.49	0.02	0.98	Japan	0.22	0.01	0.44
Poland	0.46	0.17	0.76	Czech Republic and Slovakia	0.15	0.06	0.25
Brazil	0.41	0.31	0.51	South Korea	0.11	0.03	0.19
Belgium	0.40	0.32	0.48	Chile	0.09	0.09	0.09
Taiwan	0.38	0.31	0.45	Mexico	0.03	0.06	0.00
(b) Wal-Mart							
Mexico	0.67	1.00	0.33	United Kingdom	0.27	027	0.27
Brazil	0.56	0.13	1.00	Japan	0.18	0.13	0.22
Canada	0.49	0.68	0.29	South Korea	0.14	0.11	0.17
Argentina	0.34	0.43	0.25	Germany	0.07	0.13	0.00
China	0.32	0.06	0.58				

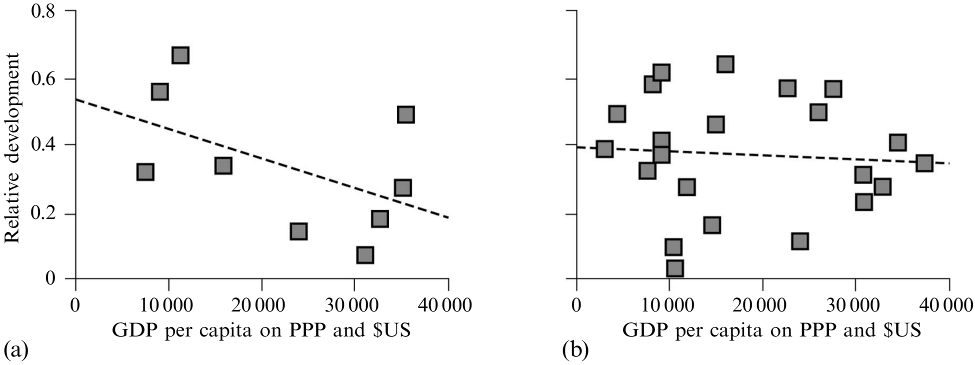

Figure 3. Correlation of relative development and GDP per capita (2006 or year of exit): (a) Wal-Mart (correlation coefficient = −0.26); (b) Carrefour (correlation coefficient = 0). (PPP is purchasing power parity.)

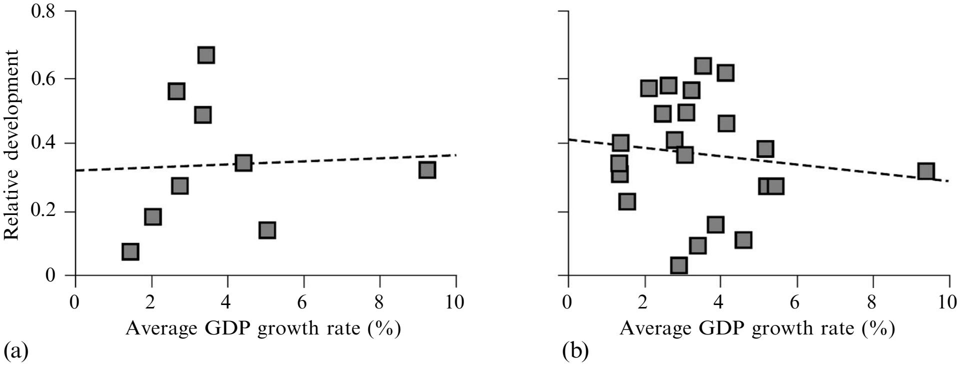

Figure 4. Correlation of relative development and average GDP growth (between 1992 or year of entry and 2006 or year of exit): (a) Wal-Mart (correlation coefficient = 0); (b) Carrefour (correlation coefficient = −0.02).

3 A richer conceptual framework and route towards explaining the heterogeneity of retailer performance in international markets

As research on transnational retail and the global economy has gathered pace over the past decade (Wrigley and Lowe, 2007), each of the main research communities involved—development studies/agricultural economics, economic geography, management/business studies—has provided its own set of conceptual perspectives on the key issues. Further perspectives, enriching the debates, have come from researchers in sociology, economics, international politics, public policy, and cultural studies. It is not our intention in this paper to summarize these contributions or draw them together into a comprehensive framework.[2] Rather, we draw, selectively, on five conceptual perspectives which may help to explain the heterogeneity of retailer performance in international markets.

In doing this we are conscious that we are largely neglecting the role of management cultures. It is not our intention, however, to suggest that such issues are insignificant in understanding the heterogeneity of transnational retailers and their performance. On the contrary [and accepting the arguments of Schoenberger (1994, 1997)] we are

[2] For an illustration of the increasingly shared research agenda in this field see Tacconelli and Wrigley (2009) for a summary, plus Coe and Wrigley (2007) and other papers in the special issue of the *Journal of Economic Geography* 2007 **7**(4).

sensitive to their importance, as we are also sensitive to the argument of Dawson (2001) that there are often many elements of opportunism within the international trajectories of the retail transnational corporations. Nevertheless, our focus in this paper is very much a meso–macro institutional/economic one, linked to what we believe is a novel, albeit exploratory, empirically grounded comparison of the two global leaders in the industry.

The five theoretical perspectives we draw upon are summarized in table 4. First, we note that management studies focuses mainly on the importance of strategic

Table 4. Theoretical perspectives helpful in explaining the performance of transnational retailers.

	Authors	Focus	Issues
Strategic decision making	Dawson et al (2006) Dupuis and Fournioux (2005); Gielens and Dekimpe (2000; 2007); Palmer (2005)	The internationalization process and case studies of retail firms	The internationalization cycle and strategic decisions that determine future performance of the firm: choice of the country to entry timing and mode of market entry format of stores supply chain control management structures
Multi-dimensional embeddedness	Coe and Wrigley (2007); Wrigley et al (2005)	Theorization of the retail transnational corporation and its host economy impacts	Mutual transformation of both the host economy and the transnational retailer entering that market via intrafirm, interfirm, and extrafirm networks Territorial, network, and societal embeddedness of transnational retailers
Hybridization of productive models	Boyer and Freyssenet (2000)	Regulationist approaches—production industries	Internal coherence of corporate governance, profit strategy, and pertinence vis-à-vis the accumulation regime Mutual hybridization of the productive system of the firm and the accumulation regime
Export of varieties of capitalism	Christopherson (2007); Christopherson and Lillie (2005); Konzelmann et al (2005); Wrigley and Currah (2003); Wrigley et al (2005)	Varieties of capitalism, and IKEA, Wal-Mart, and Ahold case studies	Export of corporate cultures and business practices shaped by institutional environment of the home market Extent of affinity between institutional characteristics of the home market and those encountered in the host economy entered
Market power asymmetries	Dockès (2000); Gereffi and Kaplinsky (2001); Kaplinsky (2000); Sacchetti and Sugden (2003); Tokatli (2007)	Vertical perspective on asymmetric relationships between firms Empirical studies	Market power as a crucial source of competitive advantage—asymmetries of market power positions Transformation of market structures and institutions by transnational firms

decisions along the internationalization cycle (Gielens and DeKimpe, 2000; 2007; Vidal et al, 2000)—the timing and mode of market entry and subsequent expansion (Doherty, 1999; Williams, 1992), and also issues of strategic divestment and market exit (Alexander and Quinn, 2002; Burt et al, 2003; 2004). In contrast, and second, the approach of economic geographers places emphasis on the multidimensional territorial and network embeddedness of retail activity in the markets entered—an embeddedness which leads to a process of mutual transformation of both the host economy and society of the market entered, and of the transnational retailer itself (Coe and Wrigley, 2007; Dicken, 2000; Wrigley et al, 2005). In turn, this approach has links to the regulationalist concept of productive models (Boyer, 1997; Boyer and Freyssenet, 2000; Freyssenet, 1998) and to the hybridization of such models during the international expansion process (the third perspective).

The fourth perspective is that of 'varieties of capitalism' (Amable, 2005; Berger and Dore, 1996; Boyer and Hollingsworth, 1999; Dore, 2000; Hall and Soskice, 2001; Jacoby, 2005; Whitley, 1999). Recent comparative studies of IKEA and Wal-Mart within this tradition suggest that as transnational retailers expand abroad they export corporate cultures and business practices shaped by the institutional environment of the home market (Christopherson, 2007; Christopherson and Lillie, 2005; Konzelmann et al, 2005)—in other words, shaped by their 'societal embeddedness' in the institutional, regulatory, and cultural context (national-level industrial relations systems, company practices, etc) of the home markets from which they have emerged. However, the success of that export depends on the affinity—ex ante or ex post—between the institutional characteristics associated with the 'variety of capitalism' in the home market and the characteristics encountered in the host market entered.(3) Finally, global value chain perspectives—from Gereffi and Korzeniewicz (1994) to Gereffi et al (2005)—have focused on asymmetries resulting from market power positions as a crucial source of competitive advantage and, additionally, on the way transnational corporations manage via strategic decisions and political channels to gain such positions (see, for example, Dockès, 2000; Gereffi and Kaplinsky 2001; Kaplinsky, 2000; Sacchetti and Sugden, 2003; Tokatli, 2007).

Combining these theoretical perspectives into a single conceptual framework (figure 5) leads us to suggest three different kinds of explanation for the performance of subsidiaries of transnational retailers. The first type of explanation focuses on the strategic decisions made about market entry (timing and mode) and the subsequent development of the subsidiary (organic growth or acquisition). These decisions clearly affect the ability of a transnational retailers' subsidiary to connect itself to social, political, and economic networks in the host economy/society of the country it has entered. Additionally, the strength of indigenous competition it faces in the market entered depends on these decisions. The second type of explanation focuses on the transnational retailer's ability to benefit from an upstream market power position, which, in turn, depends on its capability to exploit the advantages resulting from its ability to operate simultaneously across several countries, and from its expertise in supply chain management. The third type of explanation focuses on the sensitivity of transnational retailers to issues of labour organization and standards. Local labour standards in the markets entered may be more or, alternatively, less consistent with the way transnational retailers usually manage industrial relations systems (labour organization, wage bargaining, unions rights, etc) in their home markets (Christopherson, 2007; Tilly, 2007).

(3) In this context, Wrigley and Currah (2003) and Wrigley et al (2005) use Whitley's (2001) distinction between particularistic, coordinated/collaborative, and merchant/arm's length business environments in the host markets entered.

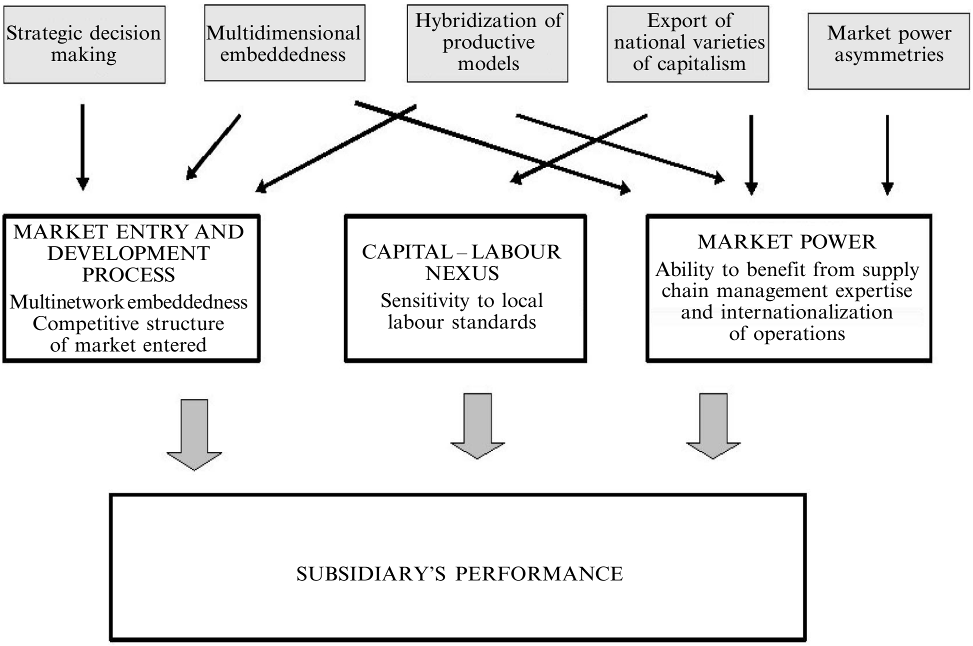

Figure 5. From conceptual tools to explanations.

4 Timing and mode of market entry and expansion

A range of variables potentially characterizes the entry of a transnational retailer into a new market, including:

- mode of entry (start-up/'greenfield' development, acquisition, joint venture, franchise);
- speed of entry, and degree to which it is announced publicly in advance;
- preexisting market structure—in particular, whether other transnational retailers already operate in the market;
- marketing strategy—in particular, store formats, merchandizing, and adaptation to local consumer cultures.

The combined effect of these variables influences the relative success of the entry. In particular, two factors demand special attention: the existence, or not, of a partnership with a local firm and the timing of entry.

Working with a local partner is viewed by several commentators (eg Coe and Wrigley, 2007) as of crucial importance because of the market knowledge that is often transferred through these kinds of arrangements, accelerating the embedding process of the transnational retailer within local networks and improving its bargaining position with local governmental elites and suppliers (Currah and Wrigley, 2004). Association or not with a local partner, and the intensity of that association, is also seen to be of significance in terms of reaching a critical market size, which, in turn, brings benefits from economies of scale and market power vis-à-vis local suppliers. Finally, it can also be argued that this type of market entry makes it possible to deploy the competitive advantages of the transnational retailer on a greater scale more rapidly: giving less time for incumbent local retailers to develop an effective imitation process.

Preexisting market structure—in particular, whether other transnational retailers have already entered the market—has also been shown to be a key factor in many developing countries. The entry of transnational retailers produces deep and rapid

Box 1. Scale of endogeneity of subsidiary's development

1 = start-up investment and dominantly organic growth
2 = joint venture (JV) limited to stores created jointly, or JV with a local chain operating fewer than 10 stores and where organic growth is dominant
3 = acquisition of a local chain, or JV with a local chain operating more than 10 stores, or presence in the market since at least 1993
4 = acquisition of a market leader during the development, or a market leadership position in 1993

effects on the indigenous retail sector,[4] and the first-mover transnational retailer to enter a market is much more likely than subsequent entrants to benefit from the skills/global-scale gap which separates the transnational retailers from the incumbent firms (Durand, 2005; Romer, 1993). Although second-mover disadvantage may be overcome by the strategic acquisition of a well-placed local partner, first-mover entry in developing countries had frequently been associated with less severe regulatory pressures [alternatively, it has been associated with the ability to exploit conflicts between local and national authorities that occur in the course of any ex-post regulatory tightening (reregulation) processes in those markets (Wang and Zhang, 2005)]. It is also associated with the ability to establish local dominance of key locations within the process of modernization of the retail sector, which then proves hard for later entrants to erode.

Several case studies have confirmed the influence of the mode and timing of market entry. Thus, bad decisions concerning timing, acquisition scale, and price are seen as contributing to the failure of Wal-Mart in Germany (Christopherson, 2006; Palmer, 2005), whilst failure to achieve sufficient market scale against first-mover transnational retailers already in the market or against strongly entrenched incumbent retailers is seen as critical in the case of Carrefour's failure vis-à-vis Wal-Mart in Mexico (Tilly, 2006) and in the case of Wal-Mart's exit from South Korea (Burt and Sparks, 2006). In Hong Kong a start-up/greenfield model of entry compounded by a second-mover position is viewed as being central to Carrefour's withdrawal; whereas in Chile the failure of several transnational retailers, including Ahold, Carrefour, and Home Depot, occurred in a context in which the leading indigenous retailers had the opportunity to anticipate and respond to the transnational retailers' sources of competitive advantage. In this case, the transnational retailers were unable to achieve the scale necessary to gain sustainable advantage in the local supply chain networks, and, additionally, they failed to embed themselves in the institutional environment and social networks of the host economy (Bianchi and Mena, 2004; Bianchi and Ostale, 2006).

To reflect these arguments and the evidence regarding the timing and mode of market entry—in particular, the nature of any partnership with a local firm and the strategic positioning of that firm in the host economy, and the timing of entry in developing countries relative to the process of modernization of the retail sector—we develop a *scale of endogeneity* measure, scoring Wal-Mart and Carrefour's international subsidiaries on that measure, with the exception of countries in which Carrefour operates stores only under franchise (see box 1).

Figure 6 then shows the correlations between this endogeneity of entry and development measure and the relative development/performance indicator (table 3) for each subsidiary. Carrefour and Wal-Mart differ partially as far as their strategies of entry are concerned—Wal-Mart seems keener on acquisitions—but the degree of endogeneity appears to have a reasonably strong relationship with relative development/performance for both firms.

[4] Reardon and Hopkins (2006) and Reardon et al (2003) summarize the consolidation impacts and diffusion trends.

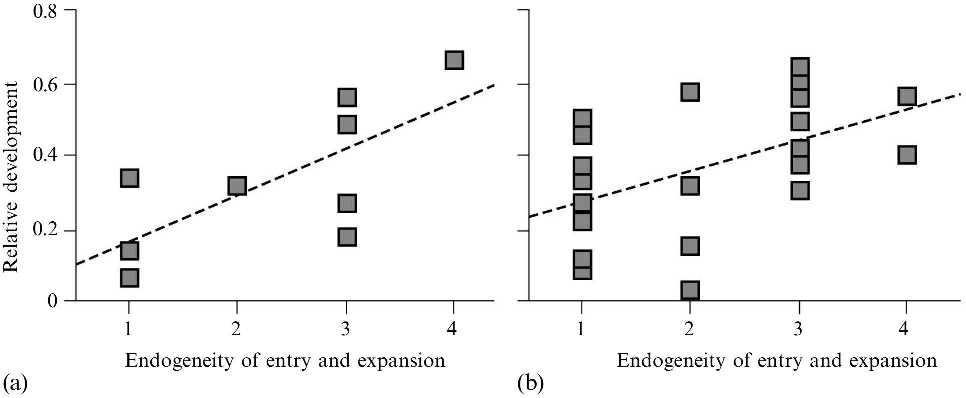

Figure 6. Correlations of 'endogeneity of entry and expansion' and relative development of subsidiaries: (a) Wal-Mart (correlation coefficient = 0.5); (b) Carrefour (correlation coefficient = 0.26).

5 Ability to exercise and benefit from upstream market power

The market power of international retailers constitutes one of their key competitive advantages. Thus, their capacity to exert this market power is a crucial element when they enter a new market. We consider this issue in three ways: first, the possibility of connecting to preexisting supply networks; second, the impact of trade liberalization agreements; third, the ability of the firms to impose their supply chain management systems and software onto the local supply chains.

5.1 The benefits of proximity

Geographical and cultural proximity is frequently viewed as playing a positive role in the performance of transnational retailers' subsidiaries. Proximity increases a transnational retailer's ability to connect to preexisting and proven supply networks and to exploit economies of scale in logistics, supply chain management, and marketing, in that way transferring upstream market power in the home market very directly into the international operations. Figure 7 examines this by considering the relationship between the relative development/performance of subsidiaries and the distance from the country of origin. In both cases the distance from the home market is correlated negatively with relative development. However, this phenomenon is much more important for Wal-Mart (correlation coefficient = −0.29), whose most durable successes to date have largely been achieved in the adjacent markets of Mexico,

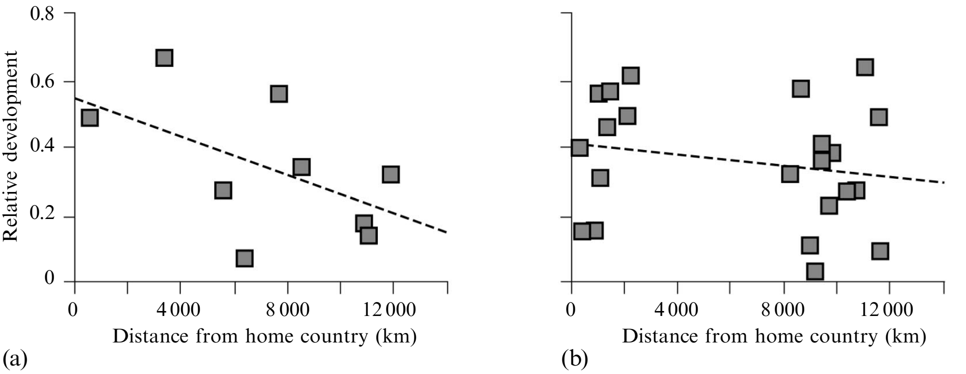

Figure 7. The impact of the distance from the domestic market on relative development of subsidiaries: (a) Wal-Mart (correlation coefficient = −0.29); (b) Carrefour (correlation coefficient = −0.04).

Canada, and Puerto Rico. Indeed, when we examined the 'adjacent market' effect in more detail, we found positive impacts on performance from operating in neighbouring countries in the case of both firms, but particularly strong impacts in the case of Wal-Mart. We take this as confirming that the ability to connect to preexisting and proven supply networks constitutes an important way of transferring upstream market power into international operations, and also as suggesting that Carrefour is less dependent on the transfer of upstream market power in terms of its international performance. Whether, additionally, this is suggestive of the greater 'adaptability' of Carrefour as compared with Wal-Mart, as has sometimes been proposed (Dupuis et al, 2006; Hugill, 2006), is less clear.

5.2 The importance of trade liberalization

In 2006 all the countries in which Carrefour and Wal-Mart operated had full convertibility for current transactions and were WTO members (CEPII database, 2007). As noted by many commentators (eg Coe and Wrigley, 2007; Reardon, 2005), trade and investment liberalization and retail FDI have gone hand in hand, with the timing of market entry being particularly affected. Thus, Wal-Mart entered Mexico and Central America at the point at which the treaties of free trade with the US (the North American Free Trade Agreement and the Central American Free Trade Agreement) were concluded. Similarly, the entry of Carrefour into the Czech Republic, Slovakia, Romania, and Bulgaria was closely linked to the agreement on the integration of those countries into the EU, although many of Carrefour's initial international market entries took place well before full liberalization of retail FDI.

Trade liberalization allows transnational retailers to benefit from their closely managed global and regional sourcing networks. They can improve their market power against both local retailers and suppliers through competitive pressure from imports by using the advantage of scale and management skills within already existing global supply networks. As a result, the fear of many host economy governments is that transnational retailers will act as 'Trojan horses' of imported goods, as observed at the end of the 1990s in Mexico, where there was a spectacular rise of Wal-Mart's imports (Durand, 2007). However, the entry of transnational retailers may conversely be associated with the building of local supply capacity/quality standards in the host economy by the transnational retailers (Coe and Hess, 2005) and may open new channels of exports for local suppliers (Coe and Wrigley, 2007; Reardon et al, 2007). Nevertheless, even in this case, there is likely to be an increase of the market power of the transnational retailers against local suppliers as the expansion of the local suppliers is carried out within the retailers' networks [what Kaplinsky (2000) terms the 'concept of immiserising growth'].

5.3 Supply-chain management

To fully exert their market power, transnational retailers need to implement their supply-chain management techniques, not least to benefit from informational asymmetry against their suppliers. Those techniques involve retailer-driven software systems that arguably weaken the bargaining power of suppliers through information sharing, and suppliers must learn to operate within the constraints of the centralized distribution and logistics systems which the retailers typically set up.

Some case studies show resistance of local suppliers to this logic. Thus, Wal-Mart in Korea and initially in Brazil encountered difficulties in the integration of supply chains (Han et al, 2002), partly as a result of lack of operating scale but also because of lack of trust regarding retailer-managed inventory practices. Both local market supplier organizations and protectionist governmental regulations may impact on the informational bargaining power between retailers and suppliers.

6 Sensitivity to issues of labour organization and standards

Retailing is a labour-intensive industry, markedly segmented in terms of workforce remuneration and with a large proportion of low-skill workers. Thus, we can assume that the institutional configuration of the capital-labour nexus in the markets entered by transnational retailers is a key element in their performance in those markets. More precisely, there may be a 'ceiling labour-standards effect' in which a transnational retailer finds it feasible to adapt its practices to suit countries where labour standards are lower than in its domestic market, but finds it difficult to adapt and compete in business environments with higher labour standards than in its domestic market.

Figure 8, 9, 10, and 11 examine this issue by considering the extent to which the relative development/performance of Wal-Mart and Carrefour subsidiaries appears to be sensitive to labour institution issues. We use four simple measures. First, in figure 8, we examine the extent of labour organization and union autonomy in each international market (ranging from 1 where there is no or extremely limited labour organization and union autonomy to 4 where there is a high degree of organization/autonomy). Second, in figure 9, we examine the extent of labour regulation enforcement (ranging from 1 where there is no or extremely weak enforcement to 4 where there is strong enforcement).

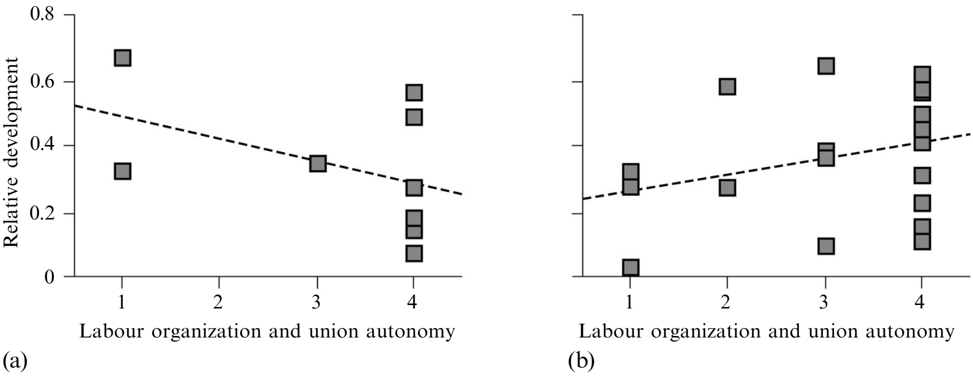

Figure 8. The impact of labour organization and union autonomy (1—no or extremely limited, 4—high degree) on the relative development of subsidiaries: (a) Wal-Mart (correlation coefficient = –0.2); (b) Carrefour (correlation coefficient = 0.09).

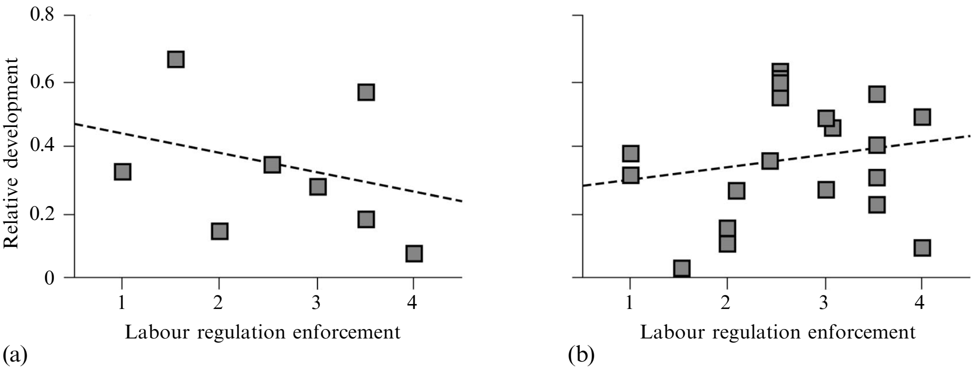

Figure 9. The impact of labour regulation enforcement (1—no or extremely weak, 4—strong) on the relative development of subsidiaries: (a) Wal-Mart (correlation coefficient = –0.09); (b) Carrefour (correlation coefficient = 0.03).

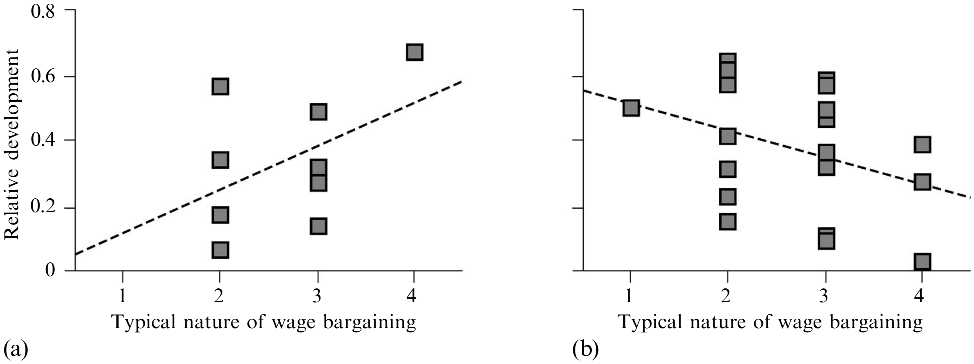

Figure 10. The impact of typical nature of wage bargaining (1—national, 2—branch, 3—enterprise, 4—individual) on the relative development of subsidiaries: (a) Wal-Mart (correlation coefficient = 0.22); (b) Carrefour (correlation coefficient = −0.14).

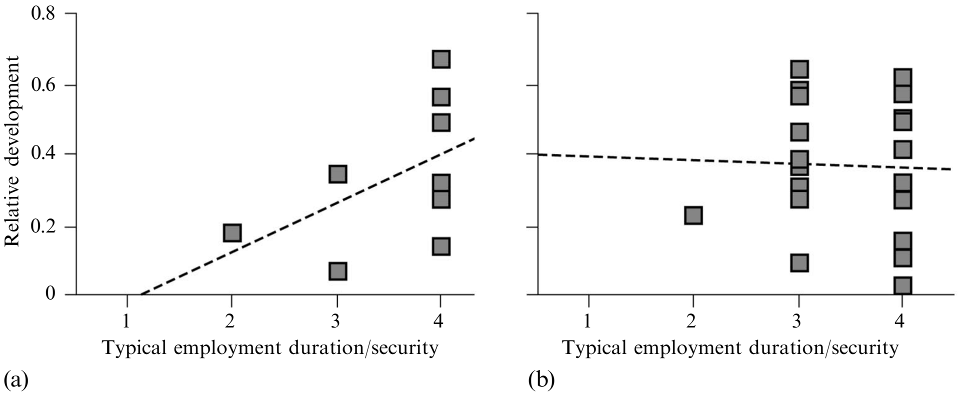

Figure 11. The impact of typical employment duration/security (1—job tenure common, 4—tenure highly unusual) on the relative development of subsidiaries: (a) Wal-Mart (correlation coefficient = 0.25); (b) Carrefour (correlation coefficient = 0).

Third, in figure 10, we examine the nature of wage bargaining typical in each international market, broadly categorizing those markets along a collective–individual axis, from the national level (scored 1), through branch (2) and enterprise levels (3), to the individual level (4). Finally, in figure 11, we examine a broad-brush characterization of employment duration/security in each market, separating those markets in which lifetime job tenure is common (scored 1) from those in which it is highly unusual (scored 4).

Although these measures are broad-brush and the analysis is exploratory in nature, some marked and interesting differences appear between Wal-Mart and Carrefour in terms of the sensitivity of their subsidiaries' performance to labour institution issues. In the case of Wal-Mart, a firm well-known for its opposition to organized labour and whose roots lie in a free-enterprise southern US culture (Hugill, 2006), its international subsidiaries appear to perform better (exhibit higher levels of relative development/performance) in markets in which there is weaker labour organization and union autonomy (figure 8), where there is weaker labour regulation enforcement (figure 9), where wage bargaining is towards the individual end of the collective–individual axis (figure 10), and where lifetime job tenure/security is highly unusual (figure 11).

In contrast, in the case of Carrefour, a firm whose initial international growth took place in the context of a domestic market in which there was substantial organized union rights and social benefits, its international subsidiaries appear to perform slightly better in markets which are the opposite of those in which Wal-Mart performs best—for example, in those in which wage bargaining is towards the collective and of the spectrum, and in which there is stronger labour organization and union autonomy. It should be noted, however, that none of the Carrefour relationships is strong either absolutely or in comparison with Wal-Mart. In addition, we are not implying in the case of Wal-Mart that it attempts to be a union-free operator in all the international markets it enters. Tilly (2007, page 1813) refutes such a characterization, arguing that "when it comes to unionization, Wal-Mart appears to fight unions in rich countries but accommodate them in poorer ones." More specifically, he argues that "where unionization is mandated or strongly supported by law and public policy, particularly when interlocked with political patronage networks, Wal-Mart has made its peace with unions. Where unionization is a matter of worker choice, Wal-Mart has resisted" (page 1822).

Case-study evidence supports this differential sensitivity of Wal-Mart and Carrefour to labour institution issues. Studies of Wal-Mart's failure in Germany have focused on its inability to implement the same labour management systems as in the US: involving limited welfare benefits, extremely rigorous supervision of employee work practices, and so on (Christopherson, 2007; Konzelmann et al, 2005). As a result, Wal-Mart faced serious worker resistance, was defeated by the German courts in its attempt to implement its '*ethical code of the employee*' (an important tool of labour discipline in the US), and also had significant difficulties in both the recruitment and retention of skilled workers. Meanwhile, in China, evidence suggests that Wal-Mart (although accepting unionization as a condition of operating in the market) has been actively opposing labour law projects aimed at increasing workers' rights and the power of unions (Dyer, 2007).

In contrast, case-study evidence suggests that Carrefour has been actively attempting to build a reputation of social responsibility in aspects of its transnational operations. Thus, in November 2000, Carrefour and the Union Network International signed an agreement to implement the International Labour Office's standards on union freedom and collective bargaining. However, the implementation of wider-social responsibility initiatives by the firm remains rather variable, as exemplified by its refusal to contribute to compensation for the workers and families affected by the fatal accident which occurred in the factory of one of its suppliers in Bangladesh (Clean Clothes Campaign, 2007).

7 Conclusion

Table 5 synthesizes the results of the previous sections. Overall, we find evidence of important differences between the two leading transnational retailers in the factors which have affected their relative development/performance in international markets, when the relative performance of each subsidiary of these firms is assessed against other subsidiaries in terms of penetration of the host markets entered and pace of growth. Although we find evidence that both retailers are sensitive to what we term the 'endogeneity of the process of development'—the mode and timing of market entry and expansion—conversely, issues impacting the ability to exercise and benefit from upstream market power, and the labour organization and regulation characteristics of the host economies entered, appear to have been more important to the performance of Wal-Mart than to that of Carrefour. In particular, the two retailers seem to have been affected in contrasting ways by labour institution issues, with the

Table 5. Summary of the factors determining the relative development/performance of Wal-Mart and Carrefour's international subsidiaries.

Type of determination	Wal-Mart	Carrefour
Macroeconomic indicators		
GDP per capita	− − −	0
GDP growth	0	0
Endogeneity of entry and development partnership	+ + +	+ + +
partnership with local firm or acquisition of market scale	+ + +	+
timing of market entry relative to the modernization of the retail sector	+	+ + +
Upstream market power	+ + +	+
geographic proximity with domestic market	++	+
contiguity with countries where the firm operates	+ + +	+
trade and retail FDI liberalization within host economy entered	prior to entry	sometimes after entry
implementation of supply chain management techniques	++	no information available
Labour organization and standards	− − −	+
labour organization and union autonomy	− −	+
employment duration/lifetime job tenure	− − −	0
labour regulation enforcement	−	+
nature of wage bargaining	− − −	++

Note: no correlation (0), weakly positive (+), positive (++), strongly positive (+ + +), weakly negative (−), negative (−−), strongly negative (− − −).

relative development/performance of Wal-Mart being better in international markets characterized by weaker labour organization and standards—markets which we also take to include, in Tilly's (2007, page 1816) terms, those in which union contracts are frequently essentially 'sweetheart' contracts which do little more than codify existing labour law and shut out more militant unionization

In brief, Wal-Mart seems more likely than Carrefour to succeed where it can more freely exert its market power and more freely reduce labour costs and/or increase labour intensity. This result supports the idea already pointed out in the literature that the core competency—and thus the competitive advantage—of the US giant is more centred around cost reduction, whereas Carrefour's adaptability and the resilience it gains from its long and often first-mover experience as a transnational operator are more important. Our originality here comes from the fact that our results have been built at the meso–macro institutional level and through a systematic, albeit exploratory, international comparison.

In line with the literature which has argued that the multidimensional embeddedness of retail activity implies a high sensitivity of retailers to institutional context, our results suggest that, beyond strategic issues relating to the mode and timing of market entry and the nature of subsequent development, and economic issues relating to the ability to exercise upstream market power, the institutional configuration of the host economies of markets entered is central to any explanation of the performance of transnational retailers in international markets, and that transnational retailers respond in rather different ways to similar institutional configurations in those host economies. However, we also note that transnational retailers are not simply institution takers; rather, they contribute actively to influencing institutional change in the host economies they enter [in the terminology of Marsden et al (1998), they attempt to 'create competitive space' in those markets] as much as they adapt to the institutional configuration of the host economies they enter. As a result, the internationalization of retailing is essentially a story of institutional hybridization involving the mutual transformation of both the transnational retailers and the host economies entered. Further analysis of the dynamics of these processes is urgently required in order to understand how this process of hybridization operates [Wrigley et al (2005) suggest some possibilities]. In particular, as we argue in section 3, the affinities both ex ante and ex post between the institutional characteristics associated with the varieties of capitalism in the home markets of the retailers and those of the host markets entered need to be considered in detail. In addition, the extent to which the varied networks of learning and adaptation employed by the transnational retailers (Currah and Wrigley, 2004) differentially impact this process of hybridization needs far more firm-specific study.

More generally, we note that issues of hybridization and the heterogeneity of firm behaviour—specifically, in this case the heterogeneity of firms' paths of internationalization—represent, as Lechevallier (2007) suggests, an important frontier for theories of the varieties of capitalism. In particular, the extent to which, and the mechanisms through which, transnational corporations represent convergent or divergent forces both between various forms of national capitalism, and also within the institutional configuration of individual industrial sectors across countries, is a key issue. Moreover, in this context it is also important to assess the extent to which the trends towards convergence in corporate behaviour and governance practices across transnational corporations, induced by the demands of global financial markets and increasingly commented upon by social scientists (Bauer et al, 2008; Clark and Wojcik, 2007; Gilson, 2000), are reflected in the processes of hybridization amongst transnational retailers. In particular, given that the institutional and organizational idiosyncrasies of transnational corporations that rely on the backing of financial markets will inevitably be priced (or discounted) by those markets (Monk, 2008), to what extent are the pressures from those markets to adopt corporate practices consistent with the aim of maximizing firm value, reducing, or likely to reduce in the future, heterogeneity in the internationalization trajectories of transnational retailers?

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