

Transferring the Retail Format Successfully into Foreign Countries

Bernhard Swoboda and Stefan Elsner

ABSTRACT

Research shows that most retailers expand abroad by transferring some elements of their format, and therefore their value chain, unchanged, while adapting other elements. However, little is known about how strongly a retail format's standardized or adapted elements affect performance in a foreign country. To shed light on this issue, this study focuses on the design of important processes and offerings, as both determine retailers' efficiency and sales. This study proposes that successful retailers build on the unchanged know-how parts of the format by combining more standardized core elements with adapted peripheral elements. The authors draw from a survey of 102 international retailers and interviews with 126 executives conducted at their headquarters. The results show that retailers transfer offers (marketing programs) and processes (marketing and supply chain) differently and hierarchically; that is, peripheral elements are allowed to vary, whereas core elements are transferred in a more standardized manner. Furthermore, the relationship between marketing program elements and performance varies: the use of standardized core elements (e.g., store types, locations) and adapted peripheral elements (e.g., assortments, promotions) is advisable for increasing performance in another country. Processes are only indirectly associated with performance. These observations hold true for both psychically close and distant countries.

Keywords: international retailers, performance in a country, format transfer, marketing program, marketing processes, supply chain processes

Global strategy has been the subject of intense research, with a focus on the extent to which marketing elements can be successfully transferred across countries (e.g., Baalbaki and Malhotra 1995; Katsikeas, Samiee, and Theodosiou 2006; Okazaki, Taylor, and Doh 2007; Özsomer and Prussia 2000; Ryans, Griffith, and White 2003; Seggie and Griffith 2008; Shoham et al. 2008; Solberg 2008; Sousa and Bradley 2008). This debate balances the advantages of standardization across countries with the benefits of local market adaptations (Griffith 2010; for a recent review, see Schmid and Kotulla 2011). These types of decisions are crucial for service firms, particularly retailers (Huang and Sternquist 2007; Sanchez-Peinado, Pla-Barber, and Hébert 2007). Retailers have expanded aggressively abroad, first entering psychically close

countries before moving on to more distant ones, and they are particularly concerned with marketing offers that will attract local customers to their stores. However, retailers primarily transfer formats from their home market (Goldman 2001), including familiar combinations of visible marketing offers and retail know-how (i.e., processes and firm culture; Hollander 1970; Kacker 1988). Retailers must also establish efficient processes (e.g., purchasing procedures), as these processes affect a significant share of their total costs (Einarsson 2008; Mentzer, Min, and Zacharia 2000). By analyzing successful format transfer, this study investigates the relationship between two important types of processes (marketing and supply chain processes) and marketing programs. Marketing processes are defined as sales-related procedures, systems, and regulations

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(Griffith, Hu, and Ryans 2000; Walters 1986), whereas supply chain processes are defined as purchase and logistics procedures, systems, and regulations (Bourlakis and Bourlakis 2001; Swoboda, Foscht, and Cliquet 2008). Specifically, this study assumes that successful retailers build on the unchanged know-how parts of their format—that is, the standardized core and adapted peripheral process and program elements.

Scholars are increasingly analyzing international retailers (for a recent review, see Swoboda, Zentes, and Elsner 2009) and their internationalization strategies (e.g., Burt et al. 2008; Girod and Rugman 2005; Rugman and Girod 2003), but they seldom analyze the transfer of retail formats. By composing a transfer strategy that is based on format elements, Goldman (2001) shows that retailers transfer offers and processes differently but generally do not adjust the know-how parts of a format that differentiate them from their local competitors (Goldman 2000). Jonsson and Foss (2011) emphasize that global retailers' different designs of format elements allow for varying marketing elements, whereas higher-level features (e.g., processes) are transferred more uniformly. The design of more uniform core format elements and more adapted peripheral elements varies. In the manufacturing context, some studies investigate how the standardization of marketing processes determines offers and performance (e.g., Chandra, Griffith, and Ryans 2002; Chung 2003; Griffith, Chandra, and Ryans 2003; Townsend et al. 2004). In the retail context, small-N studies examine processes and offers but primarily analyze the latter. These studies emphasize that performance is driven by adaptation to local environments (e.g., Bianchi and Ostale 2006; Currah and Wrigley 2004). There are also numerous studies of single marketing program elements, such as assortments, prices, or promotions (for a review, see Swoboda, Zentes, and Elsner 2009). In contrast, Gielens and Dekimpe (2001) demonstrate that transferred store types that are already familiar to a firm lead to success. Thus, prior research is inconclusive regarding the degree of standardization of retail format elements and does not provide empirical insights into the interactions among retail processes, marketing programs, and performance in foreign countries.

Therefore, our aim is to answer the following question: Which processes and marketing program elements are standardized or adapted, and how do these processes and offers interact? By assuming that processes and programs include core and peripheral elements that are standardized to varying degrees, we expect that their rela-

tionship to retailer performance will vary. Thus, we aim to determine whether and how the degree of standardization of the marketing program elements and marketing and supply chain processes determines performance in a foreign country. We define the degree of standardization as the extent to which elements are similar abroad compared with the retailer's home country (Cavusgil, Zou, and Naidu 1993; Zou and Cavusgil 2002).

This study offers two contributions to the extant literature. First, we disaggregate the retail format transfer strategy by conceptualizing the determining role of process on marketing program elements and by investigating core and peripheral marketing and supply chain processes and marketing programs (referring to a call from Goldman 2001). We propose a framework to explain how core and peripheral processes interact with core and peripheral marketing elements. Prior research has provided knowledge regarding the transfer of retail marketing programs, thus leaving room for a discussion of the core format elements and important processes that will further the understanding of format transfer. Second, we study the interaction among retail processes, marketing programs, and performance in a country. We provide empirical evidence detailing how core and peripheral processes and marketing elements determine performance, thus contributing to the specific body of literature on the transfer strategies of service and retail firms. The format elements we develop in this study are tailored to the characteristics of retailing, but they may not be exclusive to this service sector. Thus, we envisage a discussion that may inform future studies on business format transfer.

The remainder of the study proceeds as follows: Drawing from theory and literature reviews, we derive hypotheses and test them using data from 102 retailers operating abroad. We differentiate operations in psychologically close and distant countries to ensure the robustness of our results. After presenting the results, we discuss implications and avenues for further research.

THEORETICAL FOUNDATION AND CONCEPTUAL FRAMEWORK

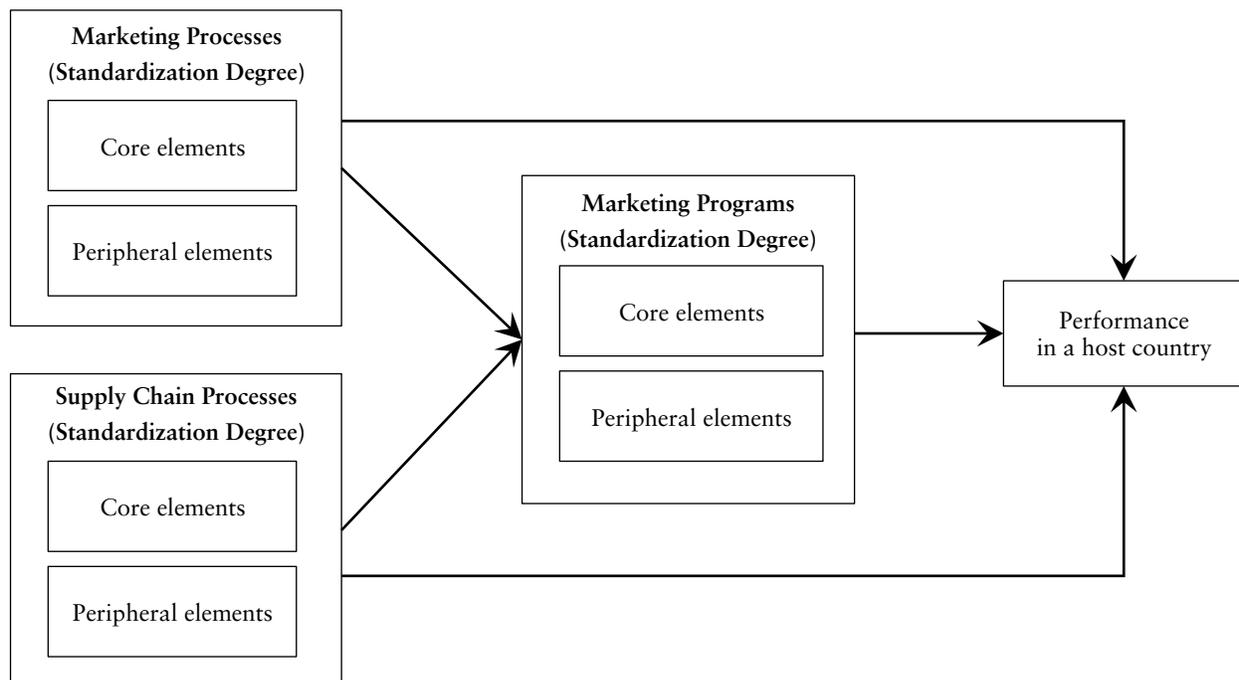
Although standardization/adaptation studies are typically not theoretically grounded (95% of the 330 articles reviewed by Schmid and Kotulla 2011), scholars have examined format transfer using grounded theory, the integration-responsiveness framework, or institutional theory (for a review, see Swoboda, Zentes, and

Elsner 2009). To address our research questions, we analyze two research streams: studies that consider which process and program elements of a format are standardized or adapted and studies that analyze the performance effects of those designs. Accordingly, we refer to two theories whose detailed contributions we discuss subsequently. First, we use the flexible format replication (FFR) approach to determine the degree of standardization of process and program elements and to draw advanced conclusions about the relationships between these more standardized core elements and the less standardized peripheral elements of a format (Jonsson and Foss 2011). Second, we use profit maximization theory (PMT) to determine how the standardization of processes and offers is associated with performance (Samiee and Roth 1992; Schmid and Kotulla 2011). The use of both theories broadens the existing arguments about format transfers, especially for international retailers that primarily transfer known format elements from their home market to host countries. In line with theories and previous research (e.g., Goldman 2001), our framework proposes that the degree to which processes are standardized is related to the standardization of marketing programs and that both processes and programs are associated with performance in a country (see

Figure 1). Our framework specifically suggests that the relationships between the standardization of core and peripheral elements and retail performance differ.

The FFR adds to the understanding of format transfer by highlighting the core format elements that firms may have systematically defined or developed on the basis of past experience. Winter and Szulanski (2001) argue that organizations identify their core business elements by defining an information set, which involves specifying the fundamental, replicable features of a business model and its ideal target application. These core elements build important values and lead to routines (i.e., features that are replicated in an unchanged form). These routines allow for large-scale replications, rapid leveraging, and the knowledge transfer of elements/modules, which are not easy for competitors to imitate (Jensen and Szulanski 2007; Szulanski and Jensen 2008; Winter and Szulanski 2001). Consequently, retailers may systematically define the core elements for expansion abroad, such as preferred store types (Gielens and Dekimpe 2001; Grewal and Dharwadkar 2002). In addition to a systematic evaluation, Jonsson and Foss (2011) argue that firms design format elements in accordance with their market-based learning (i.e., their experiences in a country and

Figure 1. Conceptual Model



across countries). Drawing on path-dependent learning processes (Johanson and Vahlne 1977), the authors show that retailers frequently change the peripheral format elements (e.g., assortments) but seldom alter the core elements (e.g., procedures) and that they alter their entire business model only over an extended period of time. Thus, retailers' past experience determines format designs.

In summary, the FFR first provides a theoretical justification for the existence of core and peripheral format elements (the support classifications of Carman and Langeard 1980; Kaufmann and Eroglu 1999), the design of which is based on a systematic evaluation and market-based learning. Core and peripheral elements are difficult to identify, but they include offers and processes (Goldman 2001). For illustration purposes, Table 1 presents possible examples. Second, although the FFR refers to global firms that primarily adapt format elements after a

standardized entry into a country, we theorize that multinational retailers behave similarly. These retailers can build on systematic evaluations or search for standardizable elements to gain advantages from market-based learning, for example. Thus, the FFR provides foundational reasoning regarding the relationships between more or less standardized process and program elements. However, it provides only implicit suggestions regarding the associations between format elements and performance—namely, the positive impact of using both standardized core elements and adapted peripheral elements.

Therefore, we also refer to the PMT, which explains international performance through the successful implementation of strategies (Schmid and Kotulla 2011). This theory postulates that a firm's primary goal is to maximize profits, which can be achieved by maintaining high sales (e.g., through the benefits of market segmentation) and low costs (e.g., through the realization of economies

Table 1. Possible Core and Peripheral Program and Process Elements in Retailing

	Marketing Program	Marketing Processes	Supply Chain Processes
Core Elements	<ul style="list-style-type: none"> • Retail brand • Store type • Store layout and store design • Store location 	<ul style="list-style-type: none"> • Procedures of market and trend analysis • Category development processes • Procedures of store location planning • Identification of target groups • Procedures and systems for customer relationship management 	<ul style="list-style-type: none"> • Purchasing systems/procedures (e.g., direct store, central) • Relationships with key suppliers • Logistics and warehouse systems • ERP/IRP systems • Facility planning processes (location and design of logistics facilities)
Peripheral Elements	<ul style="list-style-type: none"> • Assortment • Price • Private labels • Sales promotion and POS marketing • Service • Hours of operation • Standard operating sales procedures (including personnel planning in stores) 	<ul style="list-style-type: none"> • Processes of category composition • Cost and price calculation procedures • Processes of sales planning and monitoring • Processes of customer service • Processes of promotion planning • Complaint management procedures 	<ul style="list-style-type: none"> • Distribution logistics for stores • Warehouse management • Cross-docking procedures • Store logistics processes • Logistics of disposal • Personnel recruitment processes

of scale) (Asche, Kumbhakar, and Tveterås 2007; Kumbhakar 2002). For example, firms adapt in foreign countries when the sales-maximizing effect of strategic flexibility and price discrimination is larger than the cost-minimizing effect of economies of scale from international standardization and when the frictions between headquarters and foreign subsidiaries are reduced (Samiee and Roth 1992; Shoham 1996; Shoham and Albaum 1994). We use this theory to determine how the standardization of processes and marketing programs is related to performance in a country (for a further contingency perspective, see Schmid and Kotulla 2011). First, the PMT provides a theoretical justification that the standardization of processes across countries enables retailers to achieve economies of scale that reduce costs and enhance profits, all else being equal. The standardized processes that are used in the home and host countries will reduce costs for local entities because they will be able to benefit from established systems and procedures. Second, adapting offers in a country enables most retailers to address local customer needs, which in turn enhances local sales and ensures that profits in a country will increase, all else being equal. In particular, adapted retail marketing programs are believed to drive consumer preferences and retailer performance (Bianchi and Ostale 2006; Burt et al. 2008). However, these general conclusions of the PMT must be further considered in conjunction with the varying degrees of adaptation for the core and peripheral format elements.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Before developing our hypotheses, we first provide an overview of the studies in the two aforementioned research streams: the interaction between process and program elements and the association of these elements with performance. We subsequently discuss the proposed relationships in both streams of analysis using theoretical arguments followed by empirical evidence.

Relationships Between Processes and Marketing Program Elements

In accordance with the particularly high importance of supply chain processes for retailers (e.g., landed costs represent the highest share of retailers' total costs; Einarsson 2008; Mentzer, Min, and Zacharia 2000), prior studies have underscored the relationship between the design of processes and visible offers. For example, Christopher, Lowson, and Peck (2004) and Tokatli

(2007) report that market and trend analyses and store layout development are important marketing processes and represent the first decisions made by Zara, one of the world's leading fashion retailers, regarding its design of market offers. Furthermore, as in the case of the British retail giant Tesco, it is reported that supply chain processes determine market offers, such as excellent assortments or prices as a result of excellent sourcing (Ganesan et al. 2009) or logistics (Lynch, Keller, and Ozment 2000). Consequently, there are strong indications that processes play a determining role in the design of market offers. In particular, scholars have used low-cost computing and available retail-related data to demonstrate the advantageous relationships between single-format elements—for example, between promotion planning and promotion offers or between logistics processes and out-of-stock products (see Bourlakis and Bourlakis 2001; Griffith, Chandra, and Ryans 2003).

However, the literature is inconclusive regarding the degree of standardization of specific format elements. First, some researchers assume that processes and offers can be standardized similarly as part of a global strategy, for example (Harzing 2000; Swoboda, Elsner, and Morschett 2012). In contrast, Chandra, Griffith, and Ryans (2002) and Manrodt and Vitasek (2004) assume that firms benefit from implementing standardized marketing processes and locally adapted marketing programs. Second, retailers' standardized supply chain processes have been shown to determine their offers (e.g., Bourlakis and Bourlakis 2001; Currah and Wrigley 2004; Tacconelli and Wrigley 2009), as retailers are likely to benefit from efficient processes and localized offers. Third, Goldman (2000) emphasizes that retailers tend to standardize processes while also differentiating core and peripheral elements. Therefore, they do not generally standardize supply chain processes, for example, but they do standardize core process elements, whereas other elements are permitted to vary in host countries. Thus, to advance the understanding of retail format transfer, we must analyze the following relationships between the core and peripheral types of processes and marketing program elements: (1) those between core processes and core marketing programs, (2) those between core processes and peripheral marketing programs, and (3) those between peripheral processes and peripheral marketing programs. In all these relationships, we assume that retailers' core format elements are more standardized than their peripheral elements.

Core Processes and Core Marketing Programs. According to the FFR, the core elements of a retail format are

replicated in an unchanged form because of the possible advantages we mentioned previously and are based on both systematic evaluation (Jensen and Szulanski 2007; Winter and Szulanski 2001) and market-based learning (Jonsson and Foss 2011). Core format elements are standardized across countries among global retailers, but multinational retailers may also aim to standardize those elements before entry as a result of their experience with a store type, for example (Gielens and Dekimpe 2001), or after entry as a result of learning effects (Burt et al. 2008, Jonsson and Foss 2011). Consequently, most retailers attempt to standardize their core processes and core marketing program elements across countries because transferring the parts of the established formats that are based on know-how offers certain advantages. Following this rationale, we expect a positive relationship between the degree of standardization of core processes and core marketing program elements. The literature provides some empirical support for this prediction.

Prior studies have indicated that standardized core marketing processes, such as store layout development or store location planning procedures, are positively related to standardized store layouts or the selection of store locations across countries. In addition to the aforementioned retail examples, this behavior is also emphasized in the work of Hernandez and Bennison (2000), who discuss store location planning and location choice being based on know-how and cost advantages, and in the work of Jonsson and Foss (2011), who show that the degree of standardization of a firm's store layout abroad is influenced by related processes. Standardized supply chain processes, such as purchasing and logistics procedures, are also positively related to store type or store location. For example, discounters and hypermarkets have characteristic purchase and logistics procedures (concentrated/tight vs. dispersed/decentralized) that are likely to be transferred together when entering a foreign market. More generally, studies have demonstrated that standardized supply chain processes serve as templates for retailer offers (e.g., Bourlakis and Bourlakis 2001; Currah and Wrigley 2004; Tacconelli and Wrigley 2009).

On the basis of this reasoning, we can hypothesize that most retailers will standardize their core processes and core marketing program elements. Formally,

H₁: The higher (a) the degree of standardization of the core marketing processes and (b) the degree of standardization of the core supply chain processes, the higher is the standardization of the core marketing program elements.

Core Processes and Peripheral Marketing Programs. If most of the core processes of a retail format are transferred in an unchanged form, the question is how these processes are related to the peripheral, more frequently adapted marketing program elements, such as assortment, price, and promotion. It is possible that retailers view established processes as the template for their retail format transfer and thus, according to the FFR, as a basis for internationalization in determining their peripheral offers. This type of mechanism is found particularly within strict retail organizations, such as franchising systems (Kaufmann and Eroglu 1999). However, certain standardized transferred systems or procedures (e.g., enterprise resource planning systems, pricing tools) can also limit the local adaptations of assortments or prices because, for example, new products in a country must first be included in those systems or tools by the local entity before they can be included in the locally adapted assortment. Furthermore, even previously adapted core processes (e.g., those implemented after an acquisition abroad) may become standardized over time as a result of market-based learning (e.g., by assuming coordination advantages). Nevertheless, in both cases, a positive relationship between the core processes and peripheral marketing program elements can theoretically be expected. Core processes constitute both a platform and a boundary condition for the design of peripheral marketing program elements.

Prior studies have addressed the relationship between core processes and peripheral marketing programs, but these studies do not offer empirical evidence. For example, it has been reported that marketing processes, such as standardized market analysis or the development of store layouts or customer relationship systems, determine the design of assortments (Coe and Lee 2006) as well as products and prices that are offered abroad (Tokatli 2007). Furthermore, retailers with specific purchasing, logistics, or supply chain skills aim to leave supply chain processes unchanged when entering new countries because those processes constitute the template of their format strategy (e.g., Zara, IKEA). Finally, Wal-Mart, for example, implements process know-how after entry by acquisition (e.g., in Germany, the United Kingdom, or Japan) because purchasing and logistics systems are the foundation of Wal-Mart's competencies (Colla and Dupuis 2002; Gielens et al. 2008).

In summary, we predict that core processes determine the design of peripheral marketing program elements:

H₂: The higher (a) the degree of standardization of the core marketing processes and (b) the degree

of standardization of the core supply chain processes, the higher is the standardization of the peripheral marketing program elements.

Peripheral Processes and Peripheral Marketing Programs. Peripheral retail format elements represent the flexible aspect of the FFR approach because they can be locally adjusted more rapidly. This flexibility gives retailers the ability to increase sales by addressing local customer needs (Goldman 2001) and to respond to the idiosyncrasies of a host country on the basis of past experiences there (Jonsson and Foss 2011). Consequently, most international retailers that attempt to penetrate a market adapt the peripheral elements of their retail formats more intensively—for example, the spatial level of each store in the grocery sector (e.g., González-Benito, Muñoz-Gallego, and Kopalle 2005). Even global firms, such as McDonald's or Gucci, increasingly adapt their assortments, prices, or promotions in foreign countries (Schuiling and Kapferer 2004). These product-related offers likely include a local assortment or promotion planning in addition to local supply and logistics processes. Thus, we expect a positive relationship between the standardization of peripheral processes and peripheral marketing program elements.

The literature offers empirical evidence of the relationships between single peripheral processes and offers. For example, the process of promotion and sales planning standardization can determine the standardization of promotional offers and daily prices (Chandra, Griffith, and Ryans 2002; Griffith, Chandra, and Ryans 2003). In addition, the adapted processes of category and sales planning generate locally adapted assortments, as observed by the Metro Group in Vietnam or by Carrefour in China (Colla and Dupuis 2002). Regarding supply chain processes, it is clear that retailers harmonize local purchasing and distribution logistics with local product offers. Thus, retailers with standardized peripheral supply chain processes are able to offer standardized assortments (Johansson 2002; Quintens, Pauwels, and Matthyssens 2006), whereas firms such as Metro Group or Carrefour use local suppliers to address their customer needs with locally adapted assortments.

Therefore, we hypothesize that the degrees of standardization of peripheral processes and of marketing program elements are correlated because a high (low) degree of standardization of peripheral processes will co-occur with a high (low) degree of standardization of peripheral marketing program elements.

H₃: The higher (a) the degree of standardization of the peripheral marketing processes and (b) the degree of standardization of the peripheral supply chain processes, the higher is the standardization of the peripheral marketing program elements.

Relationships Among Processes, Marketing Program Elements, and Performance

Seven quantitative studies investigate the international retailers' performance by focusing on the antecedents of performance, such as psychic distance (Evans and Mavondo 2002; Evans, Mavondo, and Bridson 2008), the timing and mode of entry (Gielens and Dekimpe 2001; Gielens et al. 2008), advertising (Fam and Yang 2006), and the degrees of internationalization (Assaf et al. 2012; Etgar and Rachman-Moore 2008). Small-N research on retail format transfer emphasizes the relevance of adapted format elements, such as assortments and prices (Bianchi 2006; Currah and Wrigley 2004), to performance (Burt et al. 2008; Leelapanyalert and Ghauri 2007; Swoboda, Zentes, and Elsner 2009). Furthermore, although a vast body of research addresses marketing programs and performance relationships in the manufacturing context (see the review by Schmid and Kotulla 2011), the degree of standardization of important retail processes is rarely observed (e.g., Coe and Lee 2006; Colla and Dupuis 2002). To determine whether and how standardized versus adapted processes and marketing program elements determine performance, we explore the role of core and peripheral format elements. Two specific issues are of interest.

First, we know that for most retail firms, adapted peripheral marketing programs are the determinants of performance in a country, but we do not know how the core elements interact with that performance. This interaction is of interest because the standardization of core marketing program elements (e.g., the store type; Gielens and Dekimpe 2001) determines international performance in general but may not determine performance within a specific country. Consequently, we do not know the relative importance of core and peripheral marketing instruments to firm performance in a country.

Second, the research on manufacturing firms indicates that performance can be positively related to the standardization of marketing processes (e.g., Chung 2003; Townsend et al. 2004; Walters 1986). However, we do not know whether this relationship also applies to retailers. In contrast, retail supply chain processes are known

to determine retailer performance; previous research has confirmed this relationship for elements including supply chain information and management (e.g., Barratt and Oke 2007; Green, Whitten, and Inman 2008), sourcing and purchase networks (e.g., Ganesan et al. 2009; Seevers, Skinner, and Dahlstrom 2010), and logistics (e.g., Lynch, Keller, and Ozment 2000; Schramm-Klein and Morschett 2006). These studies do not address core and peripheral process elements specifically, but they indicate, in accordance with the PMT, that internal processes tend to be standardized as a result of pressure on retailers to achieve efficiency. However, it is important to examine both (1) the relationships between the degree of standardization of marketing program elements and performance and (2) the relationships between the degree of standardization of processes and performance.

Marketing Programs and Performance. In line with the PMT, it can be assumed that, in general, the adaptation of retail marketing programs increases sales in a host country by fulfilling local customer needs, such as through local market segmentation (De Mooij and Hofstede 2002). However, the FFR approach indicates that firms standardize the core elements of their retail format, whereas the peripheral elements can vary to suit the idiosyncrasies of host countries. In addition, beyond the group of global firms, successful multinational retailers may establish routines when expanding abroad or may strive to harmonize their core marketing elements after market entry. Adapted assortments and prices are, in turn, crucial in the spatial competition of stores (e.g., González-Benito, Muñoz-Gallego, and Kopalle 2005). Consequently, there are compelling reasons for successful retail firms to employ standardized core and adapted peripheral elements. We recognize that the degree of standardization of core and peripheral offers in a country may depend on further boundary conditions, such as institutional issues or the fit between the offers and the local environment (Griffith 2010; Schmid and Kotulla 2011). However, we conclude that positive performance effects accrue from the unchanged transfer of core elements and the adapted transfer of peripheral marketing program elements.

The extant literature addresses the importance of adapted peripheral marketing program elements for success or failure in a country to varying degrees (e.g., Bianchi and Ostale 2006; Fam and Yang 2006; Mårtensson 1987; Wigley and Chiang 2009), but it seldom addresses the importance of core marketing program elements. The literature that does address the latter issue

discusses replicators that use store types, store layout, and store brands as platforms for expansion, including service retailers such as KFC, category killers such as IKEA, and discounters such as Lidl (Burt, Johansson, and Thelander 2011; Jonsson and Foss 2011). Furthermore, other retailers tend to standardize the core elements, such as store type or store layout, and adapt assortments or pricing (e.g., Auchan in Russia, Aldi in Australia, and Tesco in China). Implicit evidence of the high relevance of established program elements to success are provided in the literature. For example, timing has been shown to be a success factor in retail internationalization (e.g., Gielens and Dekimpe 2001), particularly when certain format elements are standardized to enable a firm to enter numerous countries rapidly.

According to this reasoning, we can hypothesize that successful retailers will rely on the advantages of known core and locally adapted peripheral marketing elements.

H₄: The higher (a) the degree of standardization of the core marketing program elements and (b) the higher the degree of adaptation of the peripheral marketing program elements, the higher is a firm's performance in a foreign country.

Processes and Performance. In line with the PMT, we can conclude that the standardization of processes generates advantages through economies of scale and reduces coordination costs across countries. Because a retailer's primary function is to distribute products, it must try to standardize its internal marketing and supply chain processes to be efficient. Furthermore, because internal processes are not visible to customers, such processes offer greater potential for standardization. However, the differentiation between core and peripheral processes is advantageous. Because the core elements of marketing and supply chain processes are typically transferred in unaltered form, it can be assumed that this high level of standardization will be positively related to performance in a country. As previously shown, these elements may represent the efficient routines of retailers and determine the design of offers. Regarding peripheral processes, the PMT suggests that standardization will be positively related to performance because retailers can reduce costs and local entities will benefit from established procedures.

The literature on performance effects is inconclusive, especially those effects stemming from the marketing processes of retailers. Only Rogers, Ghauri, and George (2005) address marketing process standardization and

performance in the retail context, and they demonstrate that success is based on the transfer of unaltered marketing processes that are sometimes transferred several years after entry. However, Walters (1986) and Sorenson and Wiechmann (1975) acknowledge that the standardization of marketing processes drives performance for manufacturers, and Akaah (1991) provides empirical confirmation of this relationship. However, these results contrast with the studies of Chung (2003) and Townsend et al. (2004). Thus, the previous results are not conclusive. The literature on supply chain processes emphasizes their importance for retail performance (e.g., Schramm-Klein and Morschett 2006; Wigley and Chiang 2009) because faster and more reliable delivery results in better product availability and a better competitive position (Tacconelli and Wrigley 2009). However, a positive relationship between the degree of standardization of supply chain processes and performance is addressed only by examples of fashion retailers (Brun et al. 2008) and grocery retailers (Wrigley 1997a, b).

Thus, in light of the aforementioned theoretical reasoning, we predict that more standardized core marketing and supply chain processes will positively influence performance in a country, whereas the same conclusion for peripheral processes is based on the general assumption that the standardization of internal processes is advantageous. Thus, we hypothesize the following:

H₃: The higher the degree of standardization of (a) the core marketing processes, (b) the peripheral marketing processes, (c) the core supply chain processes, and (d) the peripheral supply chain processes, the higher is a firm's performance in a country.

EMPIRICAL STUDY

Sample Design

We conducted in-depth face-to-face interviews with international retailers from Austria, Germany, and the German-speaking part of Switzerland. We opted for this regional focus because it ensures a culturally homogeneous sample and because including firms from other countries enhances generalizability, though issues with measurement invariance may also result (Hult et al. 2008). To develop the sample, we selected each firm from the commercial Hoppenstedt database (e.g., Schilke and Goerzen 2010) from section G52, "Retail trade, except of motor vehicles and motorcycles." This procedure yielded 758 retail chains. We excluded retail-

ers without international sales in at least two countries, and we contacted the national retail associations to ensure that no international retailer was missing. This process yielded a potential sample of 193 firms.

Chief executive officers (CEOs) were personally informed of the study, and an interview was requested at each retailer's headquarters first by postal mail, subsequently by electronic mail, and then by telephone calls two weeks later. A total of 65 retailers refused to participate in the study because their policy does not allow for the provision of information to third parties. Other retailers did not respond to the interview requests by mail and telephone calls. However, 126 managers (53% CEOs/heads of chains and 47% expansion managers) from 102 retail chains were available for interviews at their headquarters in 2010. Thus, we had a high response rate of 53% (Evans, Mavondo, and Bridson 2008), possibly due to the convenience of the interviews for the respondents and the high interest in retail internationalization. The sample size of 102 retailers (82 from Germany, 12 from Austria, and 8 from the German-speaking part of Switzerland) exhibits the following average characteristics: total sales of 5,772 million euros, 25,508 employees, a 41.6% share of foreign sales, 19.1 operating countries, and 23.7 years of international experience (see Table 2). These statistics indicate that these large retail firms are similar to internationally operating retail firms from other countries.

The duration of each interview was approximately 120 minutes. We asked the respondents to evaluate the situation in two countries in which they had operated for at least five years. We chose this time period on the basis of the pretest conclusions and to ensure market-based learning after market entry. Furthermore, the aforementioned country selection was necessary because we wanted to ensure similar areas of analysis and because we assumed that no country exists with more than 100 operating foreign retailers to control for possible effects from the external environment. Following Evans and Mavondo's (2002) procedure, we asked the respondents to select one psychically close and one psychically distant country—that is, countries with business and cultural environments that are either similar to or different from those of the home country, respectively. The choices were evaluated using ten business and cultural distance items (Evans and Mavondo 2002). Findings related to high mean value differences between the two country groups ($p < .001$) and no differences within the country groups can be reported for each item. The close-country group primarily includes Western European countries, and the

Table 2. Sample Distribution

	M	SD
Number of total sales (millions of euros)	5,772	10,371
Sales abroad (%)	41.6	25.9
Number of employees	25,508	56,268
Employees abroad (%)	40.4	25.9
Number of operating countries	19.1	23.5
International experience in years	23.7	17.1
Country experience in close countries in years	19.5	14.1
Country experience in distant countries in years	10.9	5.2
Retail sector	39.2% food, 60.8% nonfood	

	Percentage of Total	Entry Modes				
		Wholly Owned Subsidiaries	Franchising	Merger and Acquisition	Joint Venture	Other
Close Country^a		62.8%	16.7%	13.7%	3.9%	2.9%
Western Europe	85.3%					
Eastern Europe	11.8%					
Other	2.9%					
Distant Country		54.9%	22.5%	11.8%	5.9%	4.9%
Eastern Europe	46.1%					
Asia	31.4%					
Americas	17.6%					
Other	4.9%					

^aPlease choose two different countries to evaluate in which your company operates for at least five or more years: one psychically close country (with a similar legal, political, economic, business, and cultural environment compared to your home country) and a psychically distant country. The country selection has been controlled according to Evans and Mavondo (2002) using ten business and cultural dimensions; all mean value differences are significant at a $p < .001$ level (two-sided).
Notes: N = 102. Country of origin: German = 80.4%, Austria = 11.8%, and Switzerland = 7.8%.

distant-country group primarily includes Eastern European and Asian countries (see Table 2). Thus, we acknowledged this procedure as the best available and most appropriate method for ensuring similar areas of analysis and for strengthening the robustness of the results (O'Grady and Lane 1996). We did not formulate hypotheses regarding country group differences because of the weak theoretical and empirical basis for these differences with regard to the analyzed relationships.

Measurements

We first considered general aspects by using five-point scales to examine the hierarchy of effects and the visual

design. We adapted the questions from previous studies, but we also developed appropriate scales for our specific context. Thus, we conducted comprehensive pretests as part of the scale development process, as we described subsequently (see Table 3).

We conceptualize performance in a country in accordance with Hult et al. (2008). We relied on self-reports because most retailers are not obligated to communicate their performance data in general and are certainly not required to report this information for specific countries. To measure performance, we followed Evans and Mavondo (2002), who refer to Cavusgil and Zou (1994), and we measured performance in a

Table 3. Measurements

A: Close Countries									
	M	EFA (> .50)	ItTC (>.50)	KMO (χ^2) (>.50)	Factor- Loading PLS	Indicator Reliability (>.30)	AVE	Composite Reliability (>.60)	Cronbach's α (> .60/.70)
Core Marketing Processes^a							.533	.817	.743
Procedures of market and trend analyses	3.77	.802	.490		.528	.379			
Procedures of store location planning	3.94	.844	.634		.768	.590			
Procedures of store layout development	3.89	.745	.566		.770	.593			
Procedures and systems of customer relationship management	3.81	.532	.529		.820	.672			
Peripheral Marketing Processes				.768 (316.93)			.646	.879	.822
Processes of category composition	3.32	.661	.501		.779	.607			
Processes of sales planning and monitoring	3.10	.862	.730		.861	.741			
Processes of customer service	2.98	.887	.744		.845	.713			
Processes of promotion planning	2.96	.774	.614		.722	.521			
Core Supply Chain Processes^a							.605	.859	.793
Purchasing processes	4.03	.793	.531		.743	.553			
IRP systems	4.28	.950	.596		.802	.643			
Logistic processes	4.05	.751	.656		.816	.666			
ERP systems	4.29	.947	.732		.746	.557			
Peripheral Supply Chain Processes				.804 (532.40)			.717	.910	.86
Short-term supply processes	3.79	.775	.656		.827	.685			
Purchasing logistics	3.71	.902	.788		.884	.781			
Internal logistics processes	3.78	.818	.737		.850	.722			
Distribution logistics for stores	3.35	.849	.720		.826	.682			
Core Marketing Elements^a							.686	.867	.771
Store type	4.27	.890	.701		.872	.760			
Store location	3.77	.809	.535		.771	.595			
Store layout	3.81	.773	.558		.839	.704			
Peripheral Marketing Elements				.714 (152.02)			.585	.808	.664
Assortment	3.49	.833	.541		.848	.720			
Sales promotion	3.42	.779	.527		.740	.548			
Price	3.07	.663	.482		.699	.488			
Performance^b							.792	.919	.873
Sales development	2.66	.903	.805		.887	.786			
Return on investment	2.58	.850	.718	.812 (200.23)	.849	.721			
Market share	2.38	.865	.742		.932	.869			
Strategic effectiveness (satisfaction) ^c	3.50	.764	.610		.384	.148			

Table 3. Continued

B: Distant Countries										
	M	M ^a diff	EFA (> .50)	ItTC (>.50)	KMO (χ^2) (>.50)	Factor- Loading PLS	Indicator Reliability (>.30)	AVE	Composite Reliability (>.60)	Cronbach's α (> .60/.70)
Core Marketing Processes^a								.544	.826	.727
Procedures of market and trend analyses	3.51	n.s.	.784	.521		.664	.440			
Procedures of store location planning	3.65	**	.823	.568		.794	.631			
Procedures of store layout development	3.84	n.s.	.612	.539		.699	.489			
Procedures and systems of customer relationship management	3.70	n.s.	.719	.545		.784	.614			
Peripheral Marketing Processes					.767 (262.95)			.636	.875	.817
Processes of category composition	3.03	**	.677	.513		.793	.629			
Processes of sales planning and monitoring	3.09	n.s.	.845	.696		.828	.686			
Processes of customer service	2.91	n.s.	.880	.734		.822	.676			
Processes of promotion planning	2.69	**	.799	.629		.743	.552			
Core Supply Chain Processes^a								.626	.868	.792
Purchasing processes	3.93	n.s.	.847	.565		.609	.371			
IRP systems	4.09	n.s.	.945	.637		.865	.749			
Logistic processes	3.81	n.s.	.707	.712		.825	.68			
ERP systems	4.11	n.s.	.948	.755		.838	.702			
Peripheral Supply Chain Processes					.791 (539.64)			.673	.891	.838
Short-term supply processes	3.42	**	.707	.595		.777	.604			
Purchasing logistics	3.55	n.s.	.905	.726		.851	.724			
Internal logistics processes	3.34	**	.794	.720		.847	.717			
Distribution logistics for stores	3.04	**	.814	.662		.804	.647			

Table 3. Continued

B: Distant Countries										
	M	M ^a diff	EFA (> .50)	ItTC (>.50)	KMO (χ^2) (>.50)	Factor- Loading PLS	Indicator Reliability (>.30)	AVE	Composite Reliability (>.60)	Cronbach's α (> .60/.70)
Core Marketing Elements^a		*						.581	.804	.679
Store type	4.12	n.s.	.862	.532		.663	.439			
Store location	3.48	*	.857	.542		.753	.567			
Store layout	3.59	n.s.	.561	.497	.689 (116.44)	.858	.736			
Peripheral Marketing Elements								.594	.814	.696
Assortment	3.16	**	.822	.545		.836	.700			
Sales promotion	3.12	**	.726	.535		.735	.540			
Price	2.75	*	.717	.505		.736	.542			
Performance^b								.816	.930	.893
Sales development	2.87	n.s.	.891	.801		.842	.709			
Return on investment	2.72	n.s.	.889	.797	.833	.927	.859			
Market share	2.69	**	.900	.813	(254.47)	.938	.881			
Strategic effectiveness (satisfaction) ^c	3.57	n.s.	.865	.762		.450	.203			

* $p < .10$ (two-sided test of significance between close and distant countries).

** $p < .05$ (two-sided test of significance between close and distant countries).

^a“How strongly does your company adapt or standardize the following [elements] in country [...] in comparison to the home market?” (Please estimate as follows: 1 = “totally adapted,” and 5 = “totally standardized”).

^b“How successful was your company in country [...] on average over the past three years?” (Please estimate as follows: 1 = “declining/constant,” 2 = “increase of up to 10%,” 3 = “increase of 11%–20%,” 4 = “increase of 21%–30%,” and 5 = “increase of more than 30%”). “How satisfied are you with the overall development?” (1 = “very unsatisfied,” and 5 = “very satisfied”).

^cExcluded.

Notes: n.s. = not significant.

country reflectively using three financial performance indicators for each country (sales development, return on investment, and market share) on a five-point Likert-type scale (1 = “declining/constant,” 2 = “increase of up to 10%,” 3 = “increase of 11%–20%,” 4 = “increase of 21%–30%,” and 5 = “increase of more than 30%”) and a strategic effectiveness indicator (degree of satisfaction: 1 = “very unsatisfied,” and 5 = “very satisfied” with the overall development in a country). Because the strategic effectiveness indicator does not fulfill the requirements for factor loadings and indicator reliability, we excluded it from further analysis so that the financial performance represents the performance measure in this study.

Because there is no consistent measurement of marketing and supply chain processes or retail marketing pro-

grams, we developed a list of items for each construct from prior studies (e.g., Goldman 2001; Mulhern 1997; Quintens, Pauwels, and Matthyssens 2006; Srivastava, Shervani, and Fahey 1999; Swoboda, Foscht, and Cliquet 2008) and assessed them in several pretests. During in-depth interviews, we asked three retail CEOs to list the retail marketing process and program indicators that were relevant for the international expansion of their retail chains and to evaluate several well-known international retailers that we had previously evaluated on the basis of the literature and official firm databases. We subsequently discussed the results.

Moreover, we used two executive workshops on retail internationalization (one workshop with seven international senior executives and another with eight international senior executives) to identify the important

transferred marketing programs and process elements and to evaluate the managers' own retail chains and their competitors using these indicators. After we had eliminated the items with inconclusive results from the final pretest, we chose six items to measure the degree of standardization of the retail marketing program and eight items to measure marketing and supply chain processes (see Table 3). We reflectively measured the degree of standardization for each item using a semantic differential scale ranging from "fully adapted" (1) to "fully standardized" (5) compared with its equivalent in the home market (similar to, e.g., Baalbaki and Malhotra 1995; Cavusgil, Zou, and Naidu 1993; Zou and Cavusgil 2002).

To differentiate the more standardized elements of the retail format from the less standardized elements, we conducted factor analyses. Remarkably, we identified a two-factor solution for the marketing and supply chain processes and the retail marketing program that was identical for both country groups. These solutions are supported by exploratory factor analyses for each country sample (Germany, Austria, and Switzerland), which further support the measurement equivalence. We acknowledge that these elements are standardized to varying degrees, but we categorize the more standardized factors as the core elements and the more adapted factors as the peripheral elements, in line with the FFR approach. For example, a retail marketing program includes core elements, such as store types, store locations, and store layouts, as well as peripheral elements, such as assortments, prices, and sales promotions. Similarly, marketing and supply chain processes include more standardized core elements (e.g., procedures for market analysis or purchasing) and less standardized peripheral elements (e.g., processes of category composition, daily logistic processes).

We controlled for variables that could influence the standardization decision but may especially influence foreign performance: the retail sector, measured in a binary way (0 = food retailers, and 1 = nonfood retailers; in accordance with Swoboda, Elsner, and Morschett 2012); retail firm size, measured by the number of employees (e.g., Xu, Cavusgil, and White 2006); and the geographic scope of the operations, measured by the number of countries of operation (e.g., Cavusgil and Zou 1994). Furthermore, we controlled for each retailer's country experience (i.e., its number of years in operation in the evaluated country) because significant experience may influence retailer performance. We also controlled for the entry mode used because the chosen

organizational arrangement (Root 1987) may determine performance. Therefore, we used entry mode dummy variables for each of the five entry modes (see Table 2) because performance may be influenced by the possibility of standardizing market offers, for example, by employing franchising or joint venture as entry modes if there is no option for standardization. To present a more rigorous test of our hypotheses and to better describe the results, we report only the models with significant dummy variables (here, acquisitions) in the following section. Finally, we controlled our results for the possible effects of five retail formats (e.g., hypermarkets, specialty stores), but we did not find any significant effects and therefore excluded these factors from further analyses.

Methodical Approach

The methodical approach includes three steps: (1) We tested the measurements for reliability and validity, (2) we checked for possible biases, and (3) we addressed the method of hypothesis testing.

In examining reliability, we initially ensured that any corrected item-to-total correlation would not fall below .50. To assess the construct reliability, we computed the coefficient alpha and the composite reliability. In every case, these values exceeded the recommended thresholds of .70 and .60, respectively (see Table 3) (Nunally and Bernstein 1978; Peterson 1994). The average variance extracted (AVE) was greater than .50 for each of the latent variables. With regard to validity, we assessed face validity in the pretests. Table 4 provides information on construct validity. Specifically, because AVE values were greater than .50, the items demonstrate convergent validity, and because all the squared correlations were lower than the corresponding AVE values, the items also demonstrate discriminant validity (Fornell and Larcker 1981). In addition, we calculated the variance inflation factors (VIFs), and all values were lower than the recommended threshold of 10 (Diamantopoulos and Winklhofer 2001). Thus, we conclude that multicollinearity was not a serious problem for either country group in this study.

We assumed a limited probability of nonresponse bias on the basis of a comparison of the results for early versus late respondents (Armstrong and Overton 1977). Furthermore, we gathered secondary data regarding the total sales of the firms and the number of employees abroad to compare the respondents with the nonrespondents in similar retail sectors (in contexts in which such informa-

tion was available). Again, we found no significant differences. The two respondent groups, CEOs/heads of chains and expansion managers, did not differ with respect to their correlations or mean values for performance.

We addressed common method bias a priori by assuring confidentiality to the respondents, using concisely

formulated questions and an appropriate questionnaire design (e.g., a randomly mixed order of questions in the in-depth-interviews), and using different scales for the predictor and criterion measures (Podsakoff et al. 2003). A posteriori, when we failed in our efforts to collect objective performance data over three years in the countries that we observed, we employed Harman's

Table 4. Discriminant Validity

	AVE	Squared Latent Variable Correlation											
		1	2	3	4	5	6	7	8	9	10	11	12
VIF		1.473	1.581	1.035	1.847	1.357	1.037	1.060	1.400	1.213	1.284	1.345	1.072
AVE		.533	.646	.605	.717	.686	.585	.792	1.000	1.000	1.000	1.000	1.000
1. Core marketing processes	.544	—	.315	.315	.357	.294	.200	.001	.107	.000	.016	.038	.032
2. Peripheral marketing processes	.636	.184	—	.374	.518	.189	.413	.000	.171	.000	.070	.082	.040
3. Core supply chain processes	.626	.264	.241	—	.567	.174	.334	.001	.091	.000	.016	.008	.009
4. Peripheral supply chain processes	.673	.225	.452	.530	—	.394	.425	.011	.154	.000	.020	.059	.097
5. Core marketing elements	.581	.173	.099	.114	.199	—	.175	.029	.132	.000	.038	.018	.048
6. Peripheral marketing elements	.594	.186	.262	.293	.277	.175	—	.006	.147	.035	.025	.016	.009
7. Performance	.816	.025	.002	.020	.022	.064	.002	—	.005	.012	.003	.049	.041
8. Retail sector	1.000	.021	.158	.022	.117	.042	.058	.001	—	.000	.114	.134	.014
9. Country experience (log)	1.000	.023	.000	.012	.000	.018	.056	.000	.000	—	.059	.113	.000
10. Firm size (log)	1.000	.000	.073	.001	.008	.004	.009	.001	.114	.000	—	.008	.016
11. Geographical scope (log)	1.000	.002	.054	.002	.024	.011	.002	.003	.134	.000	.008	—	.000
12. Entry mode dummy ^a	1.000	.001	.021	.005	.002	.000	.000	.019	.002	.000	.049	.000	—

^aMerger and acquisition versus others.

Notes: Close countries are above (distant countries below) the diagonal. Discriminant validity: squared correlation < AVE.

single-factor test (26.8% of the total variance was explained). We also included in our partial least squares (PLS) models a method factor whose indicators represent all of the construct indicators and calculated each indicator's variances (Liang, Saraf, and Hu 2007; Pavlou, Liang, and Xue 2007; in accordance with Podsakoff et al. 2003). The results demonstrate that the average substantively explained variance of the indicators is .638 for the psychically close countries (.635 for distant countries), whereas the average explained variance of the method factor is .073 (.059). The ratio of substantive variance to method factor variance is nearly 9:1 (11:1), and fewer than half of the method factor loadings are significant (similar to Siponen and Vance 2010). Given the small magnitude and insignificance of the method variance, we contend that common method bias is reduced to the greatest extent possible, as we must rely on the self-reports of the executives of firms that are typically not obligated to publish financial performance data, especially data at the country level.

Our efforts to control for single response bias with a second respondent in each firm yielded 24 secondary respondents (primarily expansion managers) who were also interviewed in person at the retail chains' headquarters. However, a comparison of the responses between the two groups revealed high correlations and insignificant mean value differences for all measures. Given that we personally interviewed each senior executive, we can assume that single response bias is likely reduced in our data set (Kumar, Stern, and Anderson 1993).

To test the hypotheses, we employed the PLS approach, despite the shortcomings of this method (e.g., a lack of indicators for estimating global goodness of model fit; Hulland 1999). However, we also acknowledge the appropriateness of this approach given the current sample size (Chin, Marcolin, and Newsted 2003; Reinartz, Haenlein, and Henseler 2009).

Results

The descriptive results indicate that the mean values for more standardized core process and program elements are higher than those for peripheral process and program elements (see Table 3). This finding supports the work of Goldman (2001), who claimed that these elements are designed differently and that core and peripheral elements exist at different levels of the retailer value chain. Furthermore, process and program elements are more standardized in psychically close countries than in

psychically distant countries, whereas peripheral elements often differ significantly in both types of countries. Retailers respond to uncertain environments in distant countries via greater adaptation, especially with regard to peripheral format elements. Finally, performance levels are higher in psychically distant countries in accordance with the psychic distance paradox (O'Grady and Lane 1996).

To test the hypothesized relationships, we calculated several models. Models 4a and 4b (psychically close and distant countries) are relevant for the hypothesis tests (see Table 5). The data support H_{1a} and H_{1b} in both groups of countries, which assumes a positive relationship between the degrees of standardization of core processes (marketing and supply chain) and core marketing programs (close: $\beta = .451, p < .001$, and $\beta = .166, p < .01$; distant: $\beta = .334, p < .001$, and $\beta = .168, p < .01$). Consequently, the retailers tend to design their core elements consistently in the host and home countries, especially in terms of their marketing processes and programs.

H_2 and H_3 propose that the degree of standardization of core marketing and supply chain processes (H_{2a} and H_{2b}) and that of peripheral marketing and supply chain processes (H_{3a} and H_{3b}) are positively related to the degree of standardization of the peripheral marketing program elements (assortment, promotion, and price). The results support this relationship but are somewhat different in both country groups. H_{2b} and H_{3a} are fully supported (close: $\beta = .147, p < .01$, and $\beta = .343, p < .001$; distant: $\beta = .316, p < .001$, and $\beta = .247, p < .001$), whereas H_{2a} is supported in psychically distant countries and H_{3b} in psychically close countries ($\beta = .128, p < .01$, and $\beta = .297, p < .001$). This finding can be explained intuitively. For example, standardized core marketing processes (e.g., market research, location planning) may not inspire adapted assortments or prices because of saturation in the psychically close Western countries (H_{2a}). In turn, adapted peripheral logistics/purchasing may not be related to assortments/prices in psychically distant countries (H_{3b}) because of the dynamism of transitional and emerging economies, in which efficient supply chains are difficult to establish.

The data support H_{4a} and H_{4b} for both country groups, in which a positive relationship between the degree of standardization of core marketing programs and the degree of adaptation of peripheral marketing programs is assumed to be correlated with performance (close: $\beta = .244, p < .001$, and $\beta = -.202, p < .05$; distant: $\beta = .273,$

Table 5. Results

	Close Countries						Distant Countries									
	Model 1a		Model 2a		Model 3a		Model 4a		Model 1b		Model 2b		Model 3b		Model 4b	
	Beta	t-Value	Beta	t-Value	Beta	t-Value	Beta	t-Value	Beta	t-Value	Beta	t-Value	Beta	t-Value	Beta	t-Value
Core Processes and Core Marketing Elements (1)																
H _{1a} : Core marketing processes → 1			.426	8.040***	.451	7.311***			.333	7.042***	.334	5.773***				
H _{1b} : Core supply chain processes → 1			.194	3.385***	.166	2.663**			.169	3.380***	.168	3.122**				
Processes and Peripheral Marketing Elements (2)																
H _{2a} : Core marketing processes → 2			-.013	.386 ^{n.s.}	-.004	.123 ^{n.s.}			.126	3.308***	.128	2.813**				
H _{2b} : Core supply chain processes → 2			.161	2.762**	.147	2.639**			.325	6.671***	.316	4.449***				
H _{3a} : Peripheral marketing processes → 2			.363	6.131***	.343	5.653***			.245	5.631***	.247	4.717***				
H _{3b} : Peripheral supply chain processes → 2			.269	4.425***	.297	4.793***			.057	1.203 ^{n.s.}	.064	1.189 ^{n.s.}				
Marketing Elements and Performance (3)																
H _{4a} : Core marketing program elements → 3			.199	4.200***	.244	4.207***			.313	8.471***	.273	4.231***				
H _{4b} : Peripheral marketing program elements → 3			-.201	3.355***	-.202	2.371*			-.073	1.659†	-.134	2.088*				
Processes and Performance (3)																
H _{5a} : Core marketing processes → 3			.206	2.295*	-.212	2.574*			.168	2.333*	.062	1.107 ^{n.s.}				
H _{5b} : Peripheral marketing processes → 3			.175	1.875†	-.005	.070 ^{n.s.}			.144	1.706†	-.094	1.459 ^{n.s.}				
H _{5c} : Core supply chain processes → 3			.164	2.744**	-.021	.496 ^{n.s.}			.192	2.721**	.122	1.486 ^{n.s.}				
H _{5d} : Peripheral supply chain processes → 3			.133	1.739†	.126	1.371 ^{n.s.}			.136	1.643†	.050	.857 ^{n.s.}				

Table 5. Continued

	Close Countries						Distant Countries									
	Model 1a		Model 2a		Model 3a		Model 4a		Model 1b		Model 2b		Model 3b		Model 4b	
	Beta	t-Value	Beta	t-Value	Beta	t-Value	Beta	t-Value	Beta	t-Value	Beta	t-Value	Beta	t-Value	Beta	t-Value
Controls																
Retail sector	-.012	.402 ^{n.s.}	-.002	.079 ^{n.s.}	-.007	.222 ^{n.s.}	-.001	.040 ^{n.s.}	-.017	.384 ^{n.s.}	-.070	1.430 ^{n.s.}	-.087	1.768 [†]	-.093	1.513 ^{n.s.}
Country experience (log)	.007	.238 ^{n.s.}	.041	1.254 ^{n.s.}	-.042	.950 ^{n.s.}	-.066	1.437 ^{n.s.}	.056	1.563 ^{n.s.}	.094	2.536 [*]	.097	2.523 [*]	.094	2.144 [*]
Firm size (log)	.062	1.610 ^{n.s.}	.063	1.634 ^{n.s.}	.076	1.627 ^{n.s.}	.078	1.583 ^{n.s.}	-.077	1.578 ^{n.s.}	-.128	2.398 [*]	-.085	1.839 [†]	-.114	1.871 [†]
Geographical scope (log)	.219	4.984 ^{***}	.140	3.163 ^{**}	.229	4.074 ^{***}	.244	3.624 ^{***}	.063	1.645 [†]	.104	2.295 [*]	.061	1.608 ^{n.s.}	.087	1.565 ^{n.s.}
Entry mode dummy	-.211	4.681 ^{***}	-.180	4.487 ^{***}	-.191	3.377 ^{***}	-.183	3.870 ^{***}	.166	3.483 ^{***}	.163	4.082 ^{***}	.136	3.725 ^{**}	.137	3.120 ^{**}
R ² performance	9.5%		15.0%		13.8%		16.6%		3.2%		9.0%		10.6%		12.5%	
Core marketing program elements					31.2%		31.4%								19.8%	
Peripheral marketing program elements					50.3%		49.8%								39.1%	

†*p* < .10.

**p* < .05.

***p* < .01.

****p* < .001.

n.s. Not significant.

Notes: Standardized beta coefficients are illustrated.

$p < .001$, and $\beta = -.134$, $p < .05$). Thus, internationally successful retailers standardize their core marketing program elements (store type, location, and layout) and adapt their peripheral marketing program elements (assortment, promotion, and prices) to attain success in both psychically close and distant countries.

Finally, H_5 assumes that the standardization of marketing and supply chain processes has a positive effect on performance because those processes are not visible to end customers and are thus particularly suitable for standardization. Models 2a and 2b show the positive and significant relationships between performance and all processes, but the final models, 4a and 4b, do not show significant effects of the processes on performance for either psychically close or distant countries. The only exceptions are core marketing processes in psychically close countries, which could emphasize the growing direct performance relationship of these elements in saturated markets. However, this finding is remarkable because, as we noted previously, these processes have been found to have no significant effect on offers. Thus, the design of marketing programs appears to mediate the effects of processes on performance in psychically close and distant countries, but further analyses of a possible mediation effect are needed; we discuss this in greater detail subsequently.

With respect to the control variables, we should note that geographical scope has a positive effect on performance in psychically close countries, whereas merger and acquisition as an entry mode has a negative (positive) effect on performance in close (distant) countries, a result that is both unsurprising and consistent with the extant literature. Mergers and acquisitions are known to be a less successful entry mode for retailers in Western countries (e.g., Burt and Limmack 2001), but they may be suitable in distant countries because they allow firms to acquire local knowledge (Morosini, Shane, and Singh 1998). Furthermore, country experience exhibits a positive, significant effect on performance in psychically distant countries, which emphasizes the need for market-based learning in those countries.

The overall quality of the models is satisfactory. The Stone-Geisser criterion Q^2 for assessing prediction relevance yields positive values (close: .110; distant: .084) (Fornell and Bookstein 1982). The effect sizes for the paths and the R^2 values (close: 16.6%; distant: 12.5%) are satisfactory because they are consistent with the results of previous studies (e.g., Birkinshaw, Morrison, and Hulland 1995; Peña-Vinces, Cepeda-

Carrión, and Chin 2012) and because unchanged or adapted format elements constitute only one of many performance drivers in foreign countries (e.g., Haugland 2010; Lin and Hsieh 2010). The f^2 values are satisfactory and account for core marketing program elements (close: .067 and distant: .101) and peripheral elements (close: .070 and distant: .025). Finally, we calculated a rival model based on the assumption that international retailers may first decide on their marketing programs and subsequently choose the processes that result in performance. However, the results indicate lower total effects that decrease from 13.8% to 12.1% in the psychically close countries and from 10.7% to 7.6% in the psychically distant countries. These results may be attributable to, for example, a missing direct influence of processes on performance, and therefore they imply that marketing program elements have insignificant and indirect effects on performance. We tested a second rival model based on the idea that the design of marketing program elements might be determined by past retailer performance. However, because the previously estimated explained variance does not exceed recommended values for psychically close and distant countries, our framework is supported from an empirical perspective. A third revised model, in which we omitted the insignificant paths, shows the same significant path estimates but largely no increases in R^2 . We have calculated further partial models to justify the present solution, but we can report only conclusive results (e.g., the path remains significant in the models with only core elements or only peripheral elements); however, we are limited in testing alternative models because PLS does not provide any global goodness-of-fit measures.

Further tests are necessary to justify the mediating effects of core and peripheral marketing programs on performance in both countries. Table 6 first shows the results of the Sobel (1987) approximations, which, on the one hand, indicate that the standardization of most marketing and supply processes has a significant indirect effect on performance through the standardization of marketing program elements but, on the other hand, are inappropriate to justify the mediation effects for various reasons (e.g., Zhao, Lynch, and Chen 2010). Second, we employed an alternative bootstrap analysis following the steps that Zhao, Lynch, and Chen (2010) recommend and using Preacher and Hayes's (2004) macro, which allows for the use of factor values but not indicators. This test shows a mediating effect for the corporate-related process–marketing elements–performance paths.

Table 6. Test for Mediation

Indirect Effect	Close Countries					Distant Countries				
	Sobel Test		Bootstrap Analysis ^a			Sobel Test		Bootstrap Analysis ^a		
	F-Value	M	Lower	Upper	c ^b	F-Value	M	Lower	Upper	c ^b
CMP–CMI–performance	3.436***	.109	.020	.234	-.010 ^{n.s.}	3.693***	.072	.004	.173	.076 ^{n.s.}
CSCP–CMI–performance	2.386**	.080	.004	.197	-.114 ^{n.s.}	2.270**	.062	.002	.169	.078 ^{n.s.}
CMP–PMI–performance	.068 ^{n.s.}	-.029	-.131	.052	.029 ^{n.s.}	-1.695*	-.019	-.143	.079	.166 ^{n.s.}
PMP–PMI–performance	-1.935*	-.058	-.195	.085	.067 ^{n.s.}	-1.690*	.003	-.129	.122	.031 ^{n.s.}
CSCP–PMI–performance	-1.708*	-.041	-.182	.102	.009 ^{n.s.}	-1.719*	-.055	-.215	.093	.196 ^{n.s.}
PSCP–PMI–performance	-1.874*	-.111	-.263	.036	.184*	-.695 ^{n.s.}	-.048	-.198	.088	.183 ^{n.s.}

p* < .10.*p* < .05.****p* < .001.

n.s.:Not significant.

^aBootstrap samples = 5000; 95% confidence interval.^bDirect effect of independent variable on performance.

Notes: CMP = core marketing processes, CSCP = core supply chain processes, PMP = peripheral marketing processes, PSCP =peripheral supply chain processes, CMI = core marketing program elements, PMI = peripheral marketing program elements, and MV = mean values.

Because the direct effects are shown to be insignificant, we subsequently designated the type of mediation as indirect only (Zhao, Lynch, and Chen 2010). However, the analyses are not fully comparable, because they are based on item data on one side and factor data on the other side; thus, we conclude that a mediation effect exists, but it requires further elaboration (e.g., Hayes and Preacher 2012; Iacobucci, Saldanha, and Deng 2007). We interpret the observed mediation result with caution in the following discussion.

DISCUSSION

Core Results

This study examines which elements of the retail format are transferred without changes or adapted abroad. In addition, we investigate whether and which internal processes (marketing and supply chain processes) and visible offers interact with retailer performance in a country. This underresearched area is especially relevant for the majority of retailers that are increasingly shifting their attention to promising foreign markets. These retailers transfer known elements of their format from their home markets but face challenges when adapting offers and standardizing important processes in a way that helps them win local cus-

tomers and be efficient. This issue is also relevant because previous studies do not conclusively indicate which processes and program elements of a retailer's format (and therefore, of their value chain) should be transferred unchanged or in an adjusted form (Alexander 2008; Goldman 2001). These studies also do not indicate whether and how these elements in general, and core and peripheral elements in particular, drive performance abroad (Colla and Dupuis 2002; Jonsson and Foss 2011). Therefore, our study was governed by an attempt to disaggregate the format transfer strategy by identifying the relationship between important retail processes and offers and by investigating the more or less standardized core and peripheral format elements and their relationship with performance.

With respect to the FFR and the PMT, we find two types of marketing program elements that determine a firm's performance in a host country: the unchanged transfer of store types, store locations, and store layouts (core elements), and the adapted transfer of assortments, prices, and promotions (peripheral elements). This observation enhances the general conclusions of the PMT, as does the observation that important retail processes are mostly only indirectly related to performance. By supporting the FFR approach, retailers treat format transfer hierarchically, meaning that some peripheral elements are allowed

to vary across countries in response to local environments, whereas other core elements are more standardized. However, by enhancing this approach, we were able to identify the core elements simultaneously in the retail offers and processes and, therefore, across the entire retail format. Remarkably, the results are stable in both the psychically close and distant countries (Evans, Mavondo, and Bridson 2008; Hang and Godley 2009; O'Grady and Lane 1996), and retailers standardize format elements more often than might be expected (Burt et al. 2008); only a few elements are greatly adapted. These observations yield two major theoretical implications and suggestions for managers.

Theoretical Implications

Transfer of Processes and Marketing Program Elements. With respect to our first research question regarding which processes and marketing program elements are standardized or adapted and how both processes and offers interact, our results show that offers and processes are designed differently but in relation to one another. We discuss two conclusions in greater detail subsequently. This study proposes a conceptualization of how marketing and supply chain processes are related to marketing programs that enhance the performance of retailers. We respond to the calls for investigations of these important processes because market analyses and logistical procedures are of paramount importance for retail efficiency and designing offers and because these procedures often constitute significant differences between foreign and domestic retailers (e.g., Goldman 2000, 2001). Our results support those of prior studies by conceptualizing processes as the determinants of offers (e.g., Bourlakis and Bourlakis 2001; Cao and Dupuis 2009; Griffith, Chandra, and Ryans 2003; Quintens, Pauwels, and Matthyssens 2006). Consequently, both the efficiency and determinant arguments emphasize the need to consider processes when investigating retailer format transfers. Therefore, we propose an initial differentiation between marketing and supply chain elements as well as among marketing program elements. However, a detailed investigation of these factors is required.

This study proposes an important differentiation between more standardized core elements and more adapted peripheral elements within format transfers. The need for this differentiation has been suggested previously in the literature (e.g., Cao and Dupuis 2009; Carman and Langeard 1980; Kaufmann and Eroglu 1999), but our study provides strong empirical evidence

that most retailers standardize some elements and adapt others. The observations are stable for both psychically close and psychically distant countries. More importantly, we provide evidence of retailers' hierarchical behavior that is consistent with the recent literature (Jonsson and Foss 2011).

However, the finding that most retailers standardize elements of their offers and processes is novel. Consequently, we cannot conclude that the standardization of processes or high-level features and the adaptation of offers or low-level features are consistent among international retailers. Rather, it is advantageous to determine the degree of standardization of visible offers and internal processes for two reasons. First, the conceptualization of core elements may enable retailers to address internal consistencies with regard to the format. Discounters, category killers, and specialty stores exhibit different but characteristic combinations of location planning, logistics systems, and store layouts, as do retailers such as Aldi, Best Buy, or The Gap. Retailers may use strategic plans or learning-based routines to internationalize these core elements. Second, the format elements that have been identified as being more or less standardized may not be labeled as either core or peripheral elements. However, the empirical results yield an approximation of these categories that may be useful for further research. The differentiation emphasizes the varying importance of these elements, which may be used, for example, to compose more realistic indexes for the composition of format transfer strategies (enhancing Goldman [2001], who considers all format elements to be equal).

Thus, the disaggregation of format transfer we present herein enhances the understanding of retailers' strategic behavior when they expand abroad (Girod and Rugman 2005; Lin and Hsieh 2010). Finally, the elements that we developed in this study with respect to retailing firms may inspire future studies to address business format transfer in other service sectors (Sanchez-Peinado, Pla-Barber, and Hébert 2007; Seggie and Griffith 2008).

Explaining Performance in a Country. To enhance the empirical findings regarding the performance of international retailers (which has previously been addressed in only a few quantitative studies) and to elucidate successful format strategies, we explore the relationship between core and peripheral marketing and supply chain processes, as well as the relationship between marketing program elements and firm success in host countries. In response to our second research question

regarding whether and how standardized or adapted processes and marketing programs drive performance, we now discuss two major conclusions in greater detail. Because of the dearth of previous findings, we approach this question in a more descriptive manner.

Although retail firms can be successful in a country as a result of standardization or adaptation, our study emphasizes that the success of most retailers depends on the standardization and adaptation of certain marketing program elements. We are aware that this study does not control for some boundary conditions that may affect the analyzed relationships (e.g., Griffith 2010). However, successful retailers employ unchanged core marketing elements (e.g., store types, layouts, locations) and adapt peripheral elements (e.g., assortments, promotions, prices) because this approach encourages reproducible routines and takes local circumstances into consideration. This finding contributes to two streams of research: the extended literature on global marketing strategy and the research on single marketing elements (e.g., Okazaki, Taylor, and Doh 2007; Sousa and Bradley 2008). First, the local adaptation of peripheral marketing elements may not be surprising for a business that is known as multidomestic (Gamble 2010), and therefore, our findings support the results of studies on marketing elements, such as assortment or promotion adaptation (Swoboda, Zentes, and Elsner 2009). However, further theory development in this research stream may consider that there are additional marketing program elements that are transferred in a less altered form that are stronger determinants of performance in a country. This consideration is noteworthy because standardization is known to determine global performance rather than country-level performance. The research on global marketing strategy may also consider the opposing effects of standardized core and peripheral marketing program elements.

Second, in accordance with the FFR, core and peripheral market offers have different associations with performance in a country. Thus, further research may consider firm routines when explaining business format transfers (enhancing the common views of external local pressures; see, e.g., Swoboda, Elsner, and Morschett 2012). In the retail context, our results support the reasoning of the FFR within a representative retail sample of (non-global) retailers. Although global retailers adapt format elements after a primarily standardized entry, most retailers appear either to act in a manner that is similar to global retailers or to search for more standardizable format elements after entry. In conclusion, retailers may

be likely to transfer format modules, such as preferred types of store layout, core assortments, or categories. These modular construction systems would be a worthwhile topic for further research.

Consistent with previous research (Einarsson 2008; Ganesan et al. 2009; Mentzer, Min, and Zacharia 2000; Walters 1986), this study emphasizes that marketing and supply chain processes are important for success in retailing. Standardized processes have a direct relationship with performance when offers are not considered (models H_{2a} and H_{2b}), but when marketing offers are considered, most processes are only indirectly correlated with performance. This finding is notable because the standardization of processes leads to advantages across countries but does not determine performance in a specific country. Thus, two conclusions of interest are related to successful process-program relationships:

1. An equal degree of standardization of core processes and marketing program elements, as well as of peripheral processes and marketing program elements, affects performance. In particular, core elements have strong indirect effects on performance; that is, there is an indirect-only mediation through core marketing programs on the effects of core marketing and supply chain processes on performance. This effect emphasizes consistency in behavior, such that a fit exists in the design between the transferred format elements (e.g., Katsikeas, Samiee, and Theodosiou 2006; Özsomer and Prussia 2000; Schmid and Kotulla 2011; Venkatraman 1989). Further theory development should consider that retailers transfer the core elements of their business model in an unchanged form, but in relation to one another. In contrast, peripheral process elements are less mediated or not mediated at all by peripheral marketing programs. This weaker mediation could be explained, for example, by missing economies of scale (Burt et al. 2008). In other words, the degree of standardization of peripheral processes may not directly contribute to a retailer's host country performance. Rather, there may be a different effect path, whereby the degree of standardization of peripheral processes may determine (e.g., limit) the design of promotion planning or distribution logistic procedures in a country, and such factors could then determine performance (for such a mechanism, see Haugland 2010; Lin and Hsieh 2010).

2. Finally, the degree of standardization of core processes is positively correlated to the degree of standardization of peripheral marketing instruments, but the latter negatively affects performance. This finding indicates a possible trade-off; for example, core processes may generate boundary conditions for the design of peripheral elements. It could be argued that standardized core processes may not diminish a firm's ability to adapt peripheral marketing elements—for example, when a retailer designs appropriate modules for foreign expansion or when processes do not influence offers in specific environments. The current research demonstrates the latter case for core marketing processes in Western countries. Both explanations represent worthwhile avenues for further research, particularly because our correlation results were not supported in the additional mediation analysis.

Managerial Implications

This study provides managerial implications in that it highlights which elements of format transfer must be more standardized or adapted, which are interrelated, and whether and how their degree of standardization is associated with performance in foreign countries. We discuss two performance-related managerial implications next.

Executives who are responsible for foreign activities or a specific country market can identify the determining factors for performance in a country with regard to unchanged or adapted format transfer. More specifically, managers may benefit from the knowledge that performance depends primarily on visible offers and therefore on the design of marketing program elements. The core elements should be well-known and appropriately defined within each organization. These elements should be managed deliberately in a firm's home country, which remains the basis for successful retail internationalization for most retailers. However, these core elements change as a result of market-based learning over time and must consequently be adjusted with caution, especially during an aggressive internationalization process. In turn, it is valuable to adapt peripheral elements even if their association with performance is weaker than the influence of core elements. Although these observations may be evident to managers, numerous market exits (e.g., Wal-Mart from South Korea, Carrefour from Switzerland, Best Buy from China)

indicate that this approach might not always be successfully executed. Consequently, this study appears to contribute a perspective that may be overlooked by some retailers.

More importantly, this study emphasizes that processes are important for success in a country, but only indirectly and in combination with visible offers. Thus, a retailer's advantages—such as an excellent market and trend analysis, its customer relationship management systems, and its purchasing procedures or store logistics—are helpful in a country only when these elements are consistently designed with the core marketing program elements. In turn, trade-offs must be observed because of potential negative relationships among process standardization, offer adaptation, and country-level performance. Thus, retail managers should specifically define the relationships between transferred processes and offers, as indicated in this study, because such relationships vary.

LIMITATIONS AND FURTHER RESEARCH

To better understand the effects of format transfer strategies on performance, researchers must further examine this domain because this study has certain limitations. First, although we devoted special attention to the data collection process, we cannot guarantee the generalizability of the results to all international retailers. Because our data collection was restricted to retail chain headquarters in three countries and was at the discretion of executives who were open to participating in face-to-face interviews and because our work examines two groups of psychically different countries, this study is limited in scope. By broadening the database, a researcher could mitigate this limitation and allow for further conclusions. For example, although German retailers represent the greatest number of retailers in Europe and their international activities may be viewed as representative of those of European retailers, future studies could target one country as the unit of analysis or consider retailers from several countries. However, it can be difficult to obtain large samples of international retail firms because retailers rarely provide information and because the largest survey contains only 102 retail firms (Evans and Mavondo 2002). Still, the observation of foreign entities of retailers could provide an interesting alternative (Harzing 2000).

Second, we conceptualized and measured the elements of format transfer strategy as precisely as possible. We

used the home market as a reference but allowed the respondents to choose the foreign countries and entry strategies; for example, we did not focus on the dominant wholly owned subsidiaries and franchising. Thus, we did not control for seldom observable, fully diversified entries. We measured the degree of standardization on semantic differential scales that were based on previous research and our experience in the pretests, but alternative approaches exist (e.g., Baalbaki and Malhotra 1995; Cavusgil and Zou 1994; Schilke, Reimann, and Thomas 2009; Vrontis, Thrasou, and Lamprianou 2009). Furthermore, processes and marketing elements are inherently complex, and our attempt to adapt the scales to the retail context was exploratory. More detailed measures of core and peripheral elements (e.g., formative measures) may enhance the scope of implications that can be drawn from such a study.

Third, we focused on marketing elements and two types of processes. However, we have not discussed the different effects of these elements and processes in detail, nor have we explored alternative models, as mentioned previously. Other elements of the retail format might be examined in further research. Examples can be found in the literature, such as the literature on strongly standardized retail culture (e.g., Goldman 2001; Huang and Sternquist 2007; Jonsson and Foss 2011; Kacker 1988), internationalization strategies, or different retail sectors (Girod and Rugman 2005; Swoboda, Elsner, and Morschett 2012). These issues can be viewed as boundary conditions that similarly influence the proposed relationships for other contingency factors that we do not address in this study, such as international experience, cultural distance, or institutional factors (Griffith 2010; Huang and Sternquist 2007; Solberg 2008).

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