

Retail Internationalization in China

Expansion of Foreign Retailers

Lisa Qixun Siebers



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Lisa Qixun Siebers

Foreword

With retail sales at about US\$1,680 billion in 2010, having doubled since 2006, China has become a major attraction to retailers from Europe, USA and Japan. This attraction is in danger of becoming mesmerizing with sales value forecast to double again to over US\$3,300 billion by 2015. With continuing slow growth of store-based retail opportunities in Europe, the USA and Japan, having a strategy to tap into the China market has become essential for many foreign retailers from all sectors.

Whilst the growth in sales is a major enticement, just as important are the returns to be gained by leveraging, into a less mature retail structure, the decades of investment in knowledge in operating store-based retailing. As with the profits gained from the transformation of retailing in Central Europe in the 1990s through the transfer of existing practice so the opportunity in China is even greater with the market being bigger and the transformation process happening even faster. It is small wonder therefore that major food and non-food retailers from the USA, Japan and Europe are investing heavily in store-based operations across China. Retail organizations as diverse as Inditex, Tesco, Media-Saturn, Ted Baker, Family Mart, IKEA and Apple, all have plans for increasing their store networks in China.

These moves by retailers into China, however, are neither easy nor without consequences elsewhere within the firm. Chinese consumers more than doubled their per capita spending power between 2006 and 2010 and with this have come increasingly sophisticated demands of the store-based retail offer – service and quality have to accompany low prices. The market is growing and changing in many ways other than size. The investments, not least in terms of management, needed to respond to the changes in consumer demand are drawing some retailers into a strategy of focusing on China at the expense of exploring opportunities elsewhere. The amount of available and appropriate managerial talent for international retail development is limited.

Foreign retailers have to respond to these more complex consumer demands and also face the competition from increasingly successful local firms. It is in this respect that the parallels with Central Europe begin to fall down with foreign retailers in China facing increasingly strong local competitors. China Resources Enterprises with over 3,000

stores and some 4.7 million square metres of space, and Lianhua with over 5,000 stores and 3.6 million square metres, in 2010, are significant organizations, alongside the foreign firms, shaping future structures in the food sector. With combined sales in 2010 of around US\$20 billion these two domestic organizations together comfortably outstrip the combined sales of Auchan, Carrefour, Wal-Mart, and Tesco.

The potential exists for substantial growth for foreign retailers but the need to compete with locally based retailers who presently have better market knowledge tempers this potential. Market knowledge is not limited to knowing about consumer demand. The capability of the foreign retailer to grow has to encompass knowledge about the socio-political environment in which all organizations operate in China. The institutions and the individuals that control the structure of the external socio-political environment play a significant role in the extent to which the foreign firms can access the market. As the foreign firms move into tier 3 and 4 cities this aspect becomes even more influential with local socio-political structures less conversant with foreign investment, less administratively transparent and less consistent from city to city. The learning process of the retailer becomes ever more difficult as smaller markets are accessed. The complex nexus of relationships of people and institutions can provide a barrier that Western retailers find difficult to penetrate without substantial support from local partners. The socio-political environment, in addition to being complex, also poses risks of sudden, unexpected, and unexplained changes.

For foreign retailers therefore the Chinese market holds attractions and dangers. For academics studying retailing in China there are, similarly, attractions and dangers. The attraction of the study of the dynamics of change in a fast evolving retail system is intellectually seducing but is tempered by the dangers of assuming that concepts, theories, and research methods developed in studying retailing in the USA or Europe are transferable into a very different cultural context. Baseline studies are largely lacking against which change can be evaluated. One of the valuable contributions of this research monograph is in helping to provide a baseline for these future academic studies.

In moving towards a theoretical and practical understanding of the nature of current retail change in China and the role of foreign firms, it is important to acknowledge that the foreign retailers and modernized domestic retailers are creating consumer culture and driving social change in China. The international and modernizing firms comprise only a small part of the totality of retailing: international retailers, for example, account for only about 65,000 of the 1.9 million people

directly employed in retailing. The influence of these foreign firms in generating change, however, far outweighs their numerical significance and this has to be accommodated in theories of retail transformation.

There are many alternative views of the theoretical basis for considering the retail-driven change in consumer culture in China. The interaction between market society and the retail organization can be seen in terms of diffusion process theory, Giddens's structuration theory of the interplay between structure and agency, modernization theory, and, as in the case of this research study, in terms of a conceptual approach based on competing sources of influence. Theoretical and conceptual research on the dynamics of international retailing is still at an early stage of development. However, the reality of the influence of international retailers in shaping consumer society in China is evident. The need to link conceptual considerations with interview-based empirical studies, as in this book, is a solid way forward to both improving our theoretical understanding of events and appreciating the role of foreign firms in the development of consumer culture.

Looking to the future rather than the past of Chinese retailing, the next few years are likely to see the influence of foreign retailers becoming more powerful as growth continues in consumer demand and the foreign retailers increase their investment into the rapidly growing cities across China. The variety of foreign retailers, from many different countries, operating in China is likely to increase, particularly as the growing Chinese middle income segment of consumers expand their consumption horizons so providing potential market segments attractive to speciality retailers. Intensity and variety of influence will increase. Investment will not be confined to foreign firms and there will be even greater levels of investment by Chinese firms as modernization of the sector is embraced. Sector-wide modernization is inevitable in order to meet the aspirations of Chinese consumers. Gaining understanding of the dynamics of the retail transformation, its successes and failures, will be a very substantial task for academics. A huge inter-cultural research effort will be needed linking Chinese and foreign scholars. This book is welcome as a valuable stepping stone along this path of understanding.

*John Dawson
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Universities of Edinburgh and Stirling*

List of Abbreviations

CCFA	China Chain Store and Franchise Association
FDI	foreign direct investment
GDP	gross domestic product
JV(s)	joint venture(s)
PPP	purchasing power parity
RMB	Renminbi, the formal name for the Chinese yuan
SIRE	strategic international retail expansion
SOE	state-owned enterprise
WTO	World Trade Organization

1

Introduction

Introduction

China attracts lots of interest from researchers and practitioners because of its importance. China's economy has been growing rapidly since 1978 when it began its move from a centrally planned to a market-based economy (Mina and Perkins, 1997). This large nation, with retail sales growth of about 13 per cent per year, became the most attractive target market for global retailers by 2005 (Wang and Li, 2006).

China began opening its retail sector in 1992, when foreign retailers started to enter the country. China's accession to the World Trade Organization (WTO) in November 2001 was one of the most important recent events in international trade (Zhang, 2005). By the end of 2005, over 300 foreign retailers had entered China, with plans to expand when China's retail sector became deregulated (Wang, 2006). From late 2004, market restrictions on foreign retailers were relaxed, allowing them for the first time to operate wholly-owned subsidiaries in China. A number of leading foreign retailers operating in the Chinese market started to look for expansion opportunities as the restrictions were lifted and the Chinese economy improved (MINTEL, 2006).

Major changes occurred in the Chinese market structure over a short period of time and the retail industry changed and continues to do so (Sternquist and Qiao, 1995; Wing, 1996). Due to recent macro-environmental changes, including economic transition, policy changes, China's entry into the WTO, and dramatic changes in China's retail sector, previous research efforts on the retail sector need to be updated. Until recently, China was not an open market, so very little external research has been conducted on it. Chinese culture and language remain relatively inaccessible for non-Chinese researchers. Foreign

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retailers' rapid expansion activities in China need to be explained by appropriate theoretical models. Models that apply to other markets may have little validity in the context of China – a unique collection of markets. Consequently, the retail growth and dynamics in the Chinese market may provide a unique opportunity to develop theories in the retail internationalization process.

1.1 Previous work

Due to the rapid changes in China, some of the earlier work provides inaccurate background information on China's retail market for future research. For example, Li and McDonald (1996) suggested that hypermarkets and superstores are inappropriate formats to attempt to transfer into an emerging market because of the lack of a distribution network and consumer purchasing behaviour of buying in small quantities. These findings are obviously outdated, because Western hypermarkets and supermarkets have been operating and expanding in China for some time, and they have now rapidly increased the rate of their expansion to occupy the market leading to a larger market share. Distribution networks have gradually been established by foreign retail giants and though some consumers still keep their habits of shopping in local open markets, such practices have not prevented the foreign retailers from expanding. The transition of China's retail sector provides an interesting backdrop for analysing the expansion process of foreign retailers and may make a distinctive contribution to theories of the retail internationalization process.

Much of the research work has emphasized the pre-entry and entry of retail firms in a foreign market, focusing particularly on different entry modes, for example, Erramilli and Rao (1993), Alexander (1997), Vida and Fairhurst (1998), Doherty (1999), Alexander and Myers (2000), Evans *et al.* (2000), and Dawson (2001). These studies are very useful. However, their focus on pre-entry and entry stages of retail internationalization deals with only parts of the overall process of retail internationalization (Dawson and Mukoyama, 2006). Dawson and Mukoyama (2006) provided a clear identification of the stages of the retail internationalization process, including the pre-entry, entry, post-entry, assimilation, and exit stages of the process of retail internationalization, and an overall analysis of the influences on the entire process of retail internationalization. However, the authors did not specifically analyse which factors influence the expansion process of retailers in a foreign market at their post-entry stage or how these factors do so.

Other work has addressed the calls for post-market entry research (Forsgren and Pahlberg, 1992; Holm *et al.*, 1995; Lindsay *et al.*, 2003). These authors emphasized retail firms' external market-based networks (Forsgren and Pahlberg, 1992) and individual roles in foreign market operations (Lindsay *et al.*, 2003). For example, Lindsay *et al.* (2003) examined the post-entry in the internationalization process of service firms from the perspective of foreign market operations. They found that individuals play significant roles in how knowledge flows in a firm. However, they did not provide a holistic view of the factors that influence the expansion process of foreign retailers.

The recent international retail activities occurring in China call for new theories to explain these particular phenomena. This book focuses in particular on the expansion process of international retail firms in China, operating at the post-entry stage.

1.2 Terminology used in the book

Retailer in this study refers to multiple-product retailers, whose formats include hypermarket, supermarket, discount department store, cash and carry warehouse retail store, membership stores and department stores. These formats represent the main foreign retail formats operating in China. The first five formats are the so-called new formats that have been adopted by all European and North American retailers and department stores that have been adopted mostly by retailers from Asian countries such as Japan (Wang, 2003). **Foreign retailers** refer to non-Chinese retailers, most frequently those from North America, Europe, and developed Asian countries such as Japan. **Expansion process** refers to one of the growth activities at the retail firms' post-entry stage in a foreign market. **Post-entry stage** refers to the next stage after a retailer has completed its pre-entry and entry stages in a foreign market, when the firm starts to expand in the host market. These stages can be identified by characteristics of activities undertaken by foreign retailers (Dawson and Mukoyama, 2006).

1.3 Research questions, aim, and objectives

There are three important research questions that need to be answered:

- What are the significant factors influencing the expansion process of foreign retailers in China?

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- How is the expansion process of foreign retailers influenced by these factors?
- How do the explanations of identified factors contribute to retail internationalization process theory building?

This study is designed to answer these research questions based on the analysis of the transitional period between 1995 and 2005. The main reasons for choosing this period are: First, China's retail market was not open until 1992, and leading world retailers from Western countries such as Wal-Mart (USA), Carrefour (France), and Metro (Germany) entered China from 1995 and gradually started their expansion in China following the changes in Chinese government policies. Their activities in the market also contributed to general retail structure changes in the country. Second, the research period covers the time WTO agreements were signed by the Chinese government in November 2001 and the eventual removal of all restrictions for foreign retailers by the end of 2004. The research period halts at the end of 2005 when the main data were collected, so that the expansion activities of foreign retailers can be analysed after all the restrictions were lifted from the retail sector.

In order to fill in the gap of international retailer expansion at their post-entry stage of the retail internationalization process, the aim of this research is to explain the factors that influence the expansion process of foreign retailers in the Chinese market. The aim can be further broken down into the following objectives. The first objective is to identify the factors that influence the expansion process of foreign retailers in China's market. This objective is to be achieved by explaining the appropriateness of propositions set up based on previous literature and identifying emerging themes. The second objective is to examine how and why the factors identified influence this process in China. This objective is to be achieved by data analysis and demonstrated in the results. The third objective is to draw cross-case conclusions to develop a suitable model to explain the factors that influence the expansion process of foreign retailers. This is expected to establish a better understanding of the expansion process at the post-entry stage of retailer internationalization. This objective will be achieved after the results have been presented.

1.4 The structure of the book

Chapter 2 introduces the background of this research. This involves analysis of China as a new emerging market; the transition of China

from a centrally planned to a market-based economy; the influence of China's entry into the WTO agreement on China's retail sector; foreign direct investment (FDI) in China; and the transition of China's retail sector.

Chapter 3 provides a comprehensive and integrative review of theoretical frameworks on the retail internationalization process in a broad context of international retailing and business literature. Three theoretical frameworks were integrated as the literature background for this research. Seven propositions were generated based on this integrated framework. The literature regarding each proposition was reviewed before the proposition was set up.

Chapter 4 provides the methodology that is applied in this study. A case study approach was applied and a multiple-case literal replication was designed. Five case studies were chosen in order to achieve a holistic view of the phenomena investigated. The case study protocol was designed and triangulation was used as the data collection strategy. The research design was justified by construct validity, internal validity, external validity, and reliability.

Chapter 5 provides details of data analysis for individual cases. Reliance on theoretical propositions was used as the general analysing strategy. Explanation building analysis was selected as the data analysis technique to analyse the interview data. Each proposition was explained by all the case studies and revised and re-examined when necessary. Seven new themes emerged from this analysis.

Chapter 6 presents cross-case analysis and results. The cross-case analysis includes cross-case interviews, questionnaires, and document data analysis. Three new themes emerged from this analysis. A new explanatory model was developed to contribute to theory building in the retail internationalization process.

Chapter 7 focuses on the discussion and implications of the results. The discussion relates the results to the previous literature. The chapter also provides both theoretical and managerial implications. Finally, research contributions are emphasized, future research opportunities are addressed, and conclusions are drawn.

Important parts of individual case reports are attached in the appendices.

2

Background to the Research

Introduction

This chapter describes the background of the research, based on the research questions that have been set up. The chapter introduces both the macro and micro environment of China's retail business. The macro environment analysed here involves the important economic changes in China during the transitional period between 1995 and 2005, the influence of China's transitional economy and the WTO entry on its retail sector, and foreign direct investment (FDI) trends in China. The micro environment analysed involves the changes in China's retail sector, retail structure, and environment during the same time period, emphasizing the changes associated with China's entry into the WTO, and foreign retailer expansion.

The growth and changes in China's retail sector are influenced by both China's macro and micro environments. The economic growth and business environment changes that took place during the transitional period between 1995 and 2005 form the backdrop of this study. This period is covered by both China's Ninth Five Year Plan (1996–2000) and Tenth Five Year Plan (2001–2005). This time frame has been chosen because it is the period when China's retail market began to be more open and Western retail giants started to enter and then expand in the country. China joined the WTO in November 2001. By the end of 2004, all the formal restrictions on foreign retail firms in China were removed (Chaturvedi, 2006). The data for this research were collected at the end of 2005 to capture the experience of foreign retailers that had been operating in the newly open Chinese market.

2.1 China as a new emerging market

China is the world's most populous country with 1.32 billion people, making up about 20 per cent of world population (United Nations, 2007), and is therefore potentially the world's largest retail market. Table 2.1 shows the top 11 countries ranked by population size.

By 2005, China was responsible for 9 per cent of world production, using purchasing power parity (PPP), after the USA and followed by Japan, Germany, and India (China Daily, 2007b). By 2007, China remained the world's second largest economy after the US (World Bank, 2008). Table 2.2 shows the countries ranked by size of economy in 2007.

Table 2.1 Countries ranked by population size (2007)

Rank	Countries with population over 100 million	Population (thousands)	Share of world population (%)
1	China	1,328,630	20
2	India	1,169,016	18
3	USA	305,926	5
4	Indonesia	231,627	3
5	Brazil	191,791	3
6	Pakistan	163,902	2
7	Bangladesh	158,665	2
8	Nigeria	148,093	2
9	Russia	142,499	2
10	Japan	127,967	2
11	Mexico	106,535	2
	World	6,671,226	

Source: United Nations (2007).

Table 2.2 Countries ranked by size of economy (2008)

Rank	Country	GDP/PPP Millions of international dollars*
1	USA	\$13,811,200
2	China	\$7,055,079
3	Japan	\$4,283,529
4	India	\$3,092,126
5	Germany	\$2,727,514

*An international dollar has the same purchasing power over GDP as a US dollar has in the USA.

Source: World Bank (2008).

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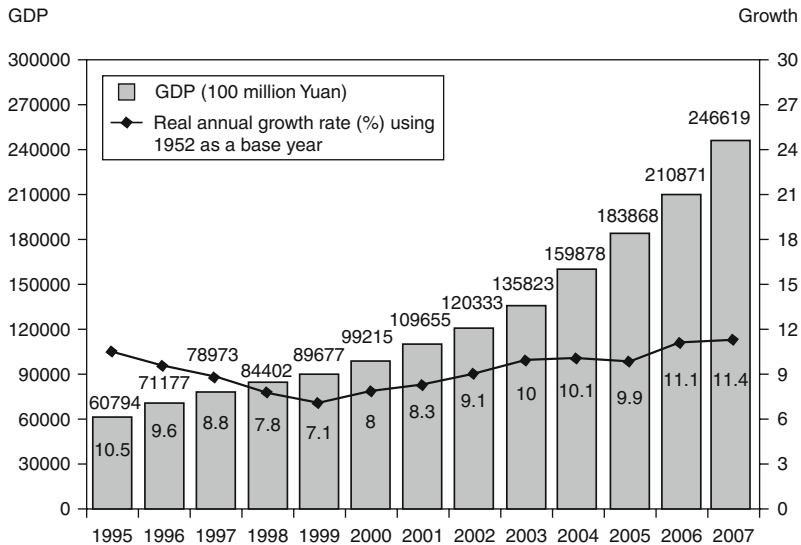


Figure 2.1 China's GDP growth from 1995 to 2007

Sources: China Statistical Yearbook (2007); Chinaview.cn (2008); Chinability.com (2008).

China's gross domestic product (GDP) in 2007 reached 24.66 trillion Yuan (US\$3.5 trillion), an increase of 65.5 per cent since 2002. This is an average annual increase of over 10 per cent, which helped to keep China's up-ranking in the GDP table (Wen, 2008). Over the last two decades, China has been the world's fastest growing economy based on GDP growth and continues to show a strong performance (China Statistical Yearbook, 2007). Figure 2.1 shows GDP and its growth in China from 1995 to 2007.

China's GDP has been growing significantly since the country started to open in 1978 (Chinability.com, 2008). The country performed even more strongly in this research period, which can be seen from Figure 2.1. This growth has been attributed to its political stability, opening-up policies, social stability, and development of foreign investments (Euromonitor, 2008b). Fixed investment, consumption, and net exports all contributed to GDP growth. The country is expected to continue to sustain strong growth in the next few years (Asia Monitor, 2006).

The growth of primary, secondary, and tertiary industry accounted for 12.5 per cent, 47.5 per cent, and 40 per cent respectively in total GDP in 2005. The contribution to GDP by tertiary industry increased nearly

13 per cent from RMB (Renminbi, the formal name for the Chinese Yuan) 6501.82 billion (US\$929 billion) in 2004 and to RMB 7343.29 billion (US\$1049 billion) in 2005 (stats.gov.cn, 2004, 2005). These figures indicate the opportunities for growth in retailing as one part of the tertiary industry.

2.2 The transition from centrally planned to market-based economy

Since 1978, China has been going through a gradual transition process moving from a centrally planned economy, in which the central government substantially managed domestic goods and monopolized international trade, to an economy which has its resources allocated mainly through the market mechanism (Mina and Perkins, 1997). Developing a liberal, market-led economy for the past 30 years has led to rapid growth and rising income and living standards in China (MINTEL, 2008b).

The transition of the Chinese economy has had a significant influence on retail and trade. Economic reforms have had an impact on the activities of state-owned enterprises (SOEs), which helped to generate the rapid growth of new foreign-owned and joint venture (JV) enterprises and lower tariff barriers. Competition for producer and consumer products in China has become intense: Over 90 per cent of retail goods prices are determined by the market (Euromonitor, 2008b). China's 'open door' policy has reversed the autarkical position prior to 1978. Further, China's trade regime has been dramatically liberalized, and foreign investment and trade based on market decisions are more welcome. China's international trade is now dominated by the non-state sectors (Mina and Perkins, 1997). The role of government in the economy has changed significantly over the reform period from direct control of developments to 'out of plan' developments being gradually allowed, as the country has shifted towards a more market-based economy (Naughton, 1995). Competition in the domestic economy has increased greatly since 1978 because of considerable relaxation of government restrictions on the non-state sector (Mina and Perkins, 1997).

However, market orientation varies in China across industries, regions, and ownership forms. The main reason for these variations is the considerable decentralization of authorities to local governments. This political decentralization, together with differences in regional cultures, means that China should be viewed as a collection of markets, not a single market. This also has consequences for the retail sector.

China is an economy that embraces both pure capitalism and some aspects of socialism (Lavigne, 1995). That is what the Chinese government calls a 'socialist market economy with Chinese characteristics' (Yeung, 2003). China is still a one-party state, nominally Communist, which is coloured by Western attitudes towards the market. The increasingly market-led Chinese economy has contributed to the improvement of living standards (MINTEL, 2008a). In particular, significant changes have occurred in China's retail sector since China joined the WTO in 2001.

2.3 The influence of WTO agreement

Of all the developing countries, China has attracted the most foreign capital and therefore has played a significant role in the process of economic globalization and integrating the Chinese economy with the global economy, particularly after China joined the WTO in 2001. Much attention has been paid to China since the Chinese government promised to reduce substantially its restrictions on imports and foreign capital inflows in many industries (Zhang, 2005).

In the first three years after China joined the WTO, some new service industries opened, including finance, insurance, tourism, and retail (Zhang, 2005). China's WTO accession has reinforced broader financial, state sector, corporate, and legal reforms, which began in the late 1990s. These reforms are expected in an ongoing way to accelerate China's 'move to the market' which began in 1978 and to strengthen the business environment for both local and foreign enterprises (dfat.gov.au/eau, 2002).

According to the WTO agreement, China had to reduce and harmonize import tariffs. In 2001, China began to reduce average import tariffs on all products from 15.3 per cent to 10 per cent by 2010. China also agreed to reduce a range of non-tariff barriers on imports, and to introduce trade reform for a broad range of services (dfat.gov.au/eau, 2002). By May 2008, China had implemented nearly all of its WTO commitments and made important progress in many areas of trade reform. Foreign companies have benefited from reduced tariffs and restrictions on business operations, the elimination of import licences and quotas, and the opening of more activities to foreign participation, particularly in the service sector (China Annual Economic Report, 2008).

China's WTO membership provides foreign firms with the legal right to set up wholesale, retail, distribution, and after-sale networks in the country. Foreign companies are no longer required to comply with local

content requirements, accept high tariffs on imports, or submit investment proposals that involve technology transfers to China's Ministry of Commerce (Daniels *et al.*, 2007). China has been inclined towards advocating free trade within the WTO, demonstrating a strong engagement with the issues affecting emerging markets (China Annual Economic Report, 2008).

2.4 Foreign direct investment in China

In the early 1980s, the barriers to FDI had already begun to be reduced in China and the investment environment was further improved following China's WTO entry. With the progressive marketization and internationalization of the Chinese economy during these two decades, there was a massive expansion of inward FDI into China from multinational enterprises (Buckley *et al.*, 2007). In 2003, China overtook the USA to become the largest recipient of FDI (UNCTAD, 2004).

Key controls on foreign investment are also gradually being reduced or removed. For example, China has eliminated foreign exchange and trade balancing requirements, and local content and export performance requirements, which previously had been applied to many foreign firms investing in the country. These changes have reduced the influence of the Chinese authorities on foreign business operations in China and stimulated greater inward foreign investment. Figure 2.2 shows the utilization of FDI from 1995 to 2005.

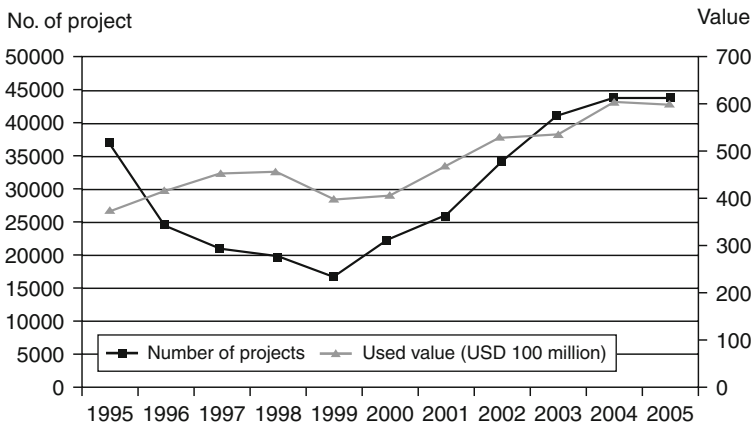


Figure 2.2 Number of projects of FDI and used value from 1995 to 2005
Sources: China Statistical Yearbook (2007); stats.gov.cn (2005).

According to Figure 2.2, the overall trend in the number of FDI projects in the research period is upwards. The value of direct foreign investment also mainly increased with only a slight dip during the chosen research period. During this period the used value of FDI flows into China increased from about US\$40 billion in 1995 to nearly US\$60 billion in 2005.

FDI in wholesaling and retailing increased by 19.20 per cent over the whole period from 1979 to 2000. After WTO accession, FDI flows into the Chinese service sector increased on average by 2 per cent per year from US\$13.9 billion in 2001 to US\$15.1 billion in 2005, when wholesale and retail activity occupied 6 per cent of the total inward FDI flows (Chen, 2007). The 'push' for much of this investment came from the saturation of foreign retailers' home markets. Retailing industries in the USA and Europe are facing maturing markets, and many of the major retailers in these nations have shown a growing interest in China, in their search for new markets (Gielens and Dekimpe, 2001). East Asia has become a promising and important market for international retailers. The lifting of trade restrictions is a vital element for developing these markets. In summary, the 'pull' attracting FDI to China has come from China's WTO entry, its economic and policy reforms, and its improving economic environment. With these developments, China's retail sector started its transition.

2.5 China's retail sector in transition

With the Chinese economy reforming, Chinese retailing is also in transition. Chinese retailing is not only benefiting from the country's economic growth, but also from international trade agreements. International trade agreements seem remote from daily sales activities of retail operations. However, the influence of trade agreements on retailers can be immediate and dramatic. US retailers, for example, were directly affected by a series of trade agreements including the North America Free Trade Agreement (NAFTA), the General Agreement on Tariffs and Trade (GATT), the WTO, and the establishment of China's trading status as Most Favoured Nation (Liebeck, 1994). Free trade agreements are expected to have important social benefits, such as improving employment and standards of living. Retail sales and the profitability of retail firms can in turn benefit from these improvements. In addition, free trade agreements can facilitate infrastructural developments which can help to improve retailers' operations (Alexander, 1997). Western foreign retail giants, such as Wal-Mart, started to enter China

in 1995. Although Chinese department stores dominated the market at that time, international retailers started to play a more important role (Wang, 2003).

Retailers in China are facing a number of important issues. Modern retail formats face significant challenges because the development of modern retailing is affected by the legacy of the command economy. Sourcing is an important example. In a market economy, sourcing is focused on allocative and technical efficiency. In a centrally planned economy, equity is a primary concern. In China's planned economy, production preference was given to those products considered essential or basic to the health and well-being of the majority of the population, and luxury goods were only to be produced by surplus capacity. The distribution system aimed to ensure that products were allocated based on need and made available to all who needed them. As a result, the investment in product and innovation was very minimal, product ranges were limited, and their life cycles were longer than in a market economy (Yeung, 2003). In addition, systematic market research was almost unknown and was virtually precluded by the state organization of industries. The concept of customer service hardly existed (Mun, 1988). Furthermore, there is still a lack of adequate supporting infrastructure for modern retailing to develop. The road and transportation infrastructure, for example, is still not well established, and a constant electricity supply is not guaranteed in all regions. All these factors are still challenges for foreign retailers to develop in China (Yeung, 2003).

2.5.1 Retail structure and environment

Every retail format is based on a certain amount of GDP per capita. Supermarket requires a per capita GDP of US\$800, and a convenience store format requires a GDP per capita of US\$3000 to induce consumers to shop there (Euromonitor, 2006a). China's consistently high growth of GDP in recent years as discussed earlier has stimulated the growth of the retail sector. Retail sales made up more than 37 per cent of GDP every year from 1999 to 2003 in China. Retail sales as a percentage of consumer expenditure hovered between 79 per cent and 85 per cent during this period, as can be seen from Table 2.3.

According to Table 2.3, retail sales remained stable as a percentage of GDP and grew firmly as a percentage of consumer expenditure between 1999 and 2003. Figure 2.3 shows the growth of the total sales of the top 100 retailers as a percentage of total sales of consumer expenditure between 1999 and 2007.

Table 2.3 Retail sales as percentage of GDP and consumer expenditure (1999–2003)

	1999	2000	2001	2002	2003
Retail sales as % of GDP	37.9	38.2	38.1	39.0	37.7
Retail sales as % of consumer expenditure	79.1	79.1	81.4	84.7	85.5

Source: Euromonitor (2003).

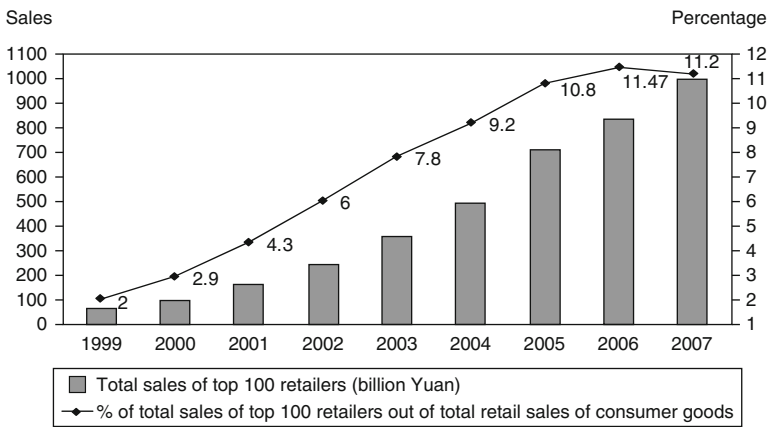


Figure 2.3 The growth in percentage of sales of the top 100 retailers occupying total retail sales of consumer goods

Sources: China Chain Store Almanac (2005, 2007); China Chain Store and Franchise Association (2008).

According to Figure 2.3, the sales of the top 100 retailers in China increased substantially and the total sales of the top 100 retailers as a percentage of the total retail sales of consumer goods also increased dramatically between 1999 and 2007 (China Chain Store Almanac, 2005, 2007). In 2007 the sales of the top 100 retailers reached more than a thousand billion Yuan occupying 11.2 per cent of the total retail sales of consumer goods in the year in 105,191 stores and the numbers are expected to grow (China Chain Store and Franchise Association, 2008). This means that the importance of retail consumption is increasing significantly in China following the changes in the retail structure and improvement in the standard of living.

Between 1995 and 2005, China's GDP grew at an annual rate of about 10 per cent, and the number of middle-class consumers rose even faster.

Table 2.4 Total retail sales in China (2001–2007) (estimated number including whole sales, catering services, and fuel sales)

	2001	2002	2003	2004	2005	2006	2007
Total (RMB billion)	4,306	4,814	5,252	5,950	6,718	7,641	8,921
Annual growth (%)	+10.1	+11.8	+8.4	+14.1	+12.9	+9.1	+16.8

Sources: National Bureau of Statistics of China (2006); MINTEL (2006, 2008b).

Middle-class consumers now demand more hygienic and higher quality goods sold in supermarkets, convenience stores, or department stores, compared to previous purchasing behaviour in local open markets or small grocery shops (Wang, 2006). Table 2.4 shows the total retail sales in China between 2001 and 2007.

Table 2.4 illustrates the strong growth in retail sales. Although there was a slowdown in 2003 due to the effects of the SARS virus, the speed of growth bounced back in 2004. This trend is expected to continue as disposable income rises. Competition has intensified following the liberalization of the Chinese market after 11 December 2004, when foreign businesses were able to operate wholly-owned subsidiaries freely in the country (MINTEL, 2006). The growth of retail sales increased 16.8 per cent in 2007. In addition, driven by the rise of an urban middle class, foreign retail giants Wal-Mart and Carrefour started to battle to become the biggest foreign-based retailer in China (Euromonitor, 2008a). Since spending has not been financed by borrowing, there is a sound market demand which provides large potential opportunities for retail growth (MINTEL, 2008b).

The picture in 2005 contrasted enormously to 1995, when there was very little organized food retailing, many fewer middle-class consumers, and a small number of shopping malls. By 2003, retail sales in China were nearly US\$554 billion and US\$580 billion in 2005. China's retail sales rose 15.5 per cent year-on-year in 2009, reaching US\$1.84 trillion, according to the National Bureau of Statistics. The real inflation-adjusted retail sales growth was at 16.9 per cent in the year, which was 2.1 per cent higher compared to that of 2008 (Xin and Jiang, 2010).

2.5.2 Expansion of foreign retailers in the Chinese market

Prospect for growth in overseas markets is one of the motives for retailer internationalization (Williams, 1992a). In 1999, China further liberalized rules for FDI in retailing, and foreign retailers were able to set up stores with some restrictions. In late 2001, China joined in the WTO agreements with more liberalization underway in the retail sector.

Table 2.5 Regulation changes in retail sector in China (1992–2004)

-
- Before 1991: The retail industry in China was protected and no foreign retailers were allowed.
 - July 1992: Foreign retailers were permitted to enter China through JVs with Chinese firms and were limited to setting up stores in special areas like Beijing, Shanghai, and five special economic zones. The authority to approve JVs lay with respective provincial governments.
 - Mid 1998: The Chinese central government prohibited local governments from granting approval for foreign retailers to open new stores.
 - June 1999: The Chinese central government liberalized the rules controlling foreign investment in retailing and wholesaling, but restrictions remained in place; foreign retailers were allowed to set up stores, but only if a 51% stake was owned by Chinese partners; franchising was prohibited and the import of goods by retailers was limited to a maximum of 30% of their annual sales in China.
 - 2004: Major shifts eliminating the requirement for central government permission for foreign retailers to open stores in China, and requirements for a minimum level of capital investment were eliminated; foreign retailers were permitted to open as many stores as they wanted and to operate their own distribution services and wholly-owned stores were permitted.
-

Source: Wang *et al.* (2007).

Before 2001, some foreign retail giants such as Wal-Mart and Carrefour had already had operation experience and completed their entry into China; these retailers started an aggressive expansion there from 2001. Table 2.5 shows the regulation changes in the retail sector.

As shown in Table 2.5, restrictions in China's retail sector started to be removed from 1992. With China opening its doors to the retail industry, a more attractive environment for foreign investments in retailing was achieved step by step. The year 2004 was the last year for Chinese retailers to bask under the government's protection as all the restrictions for foreign entry were lifted in the retail sector (Zhang, 2005). A list of major foreign-invested chained enterprises in China for 2006 is shown in Table 2.6.

Table 2.6 shows that the top ten foreign-invested retailers were in the first 40 positions of the top 100 retailers in China based on the sales in 2006. This demonstrates that foreign retailers are gradually taking over more leading positions in China's retail market and that foreign retail expansion is occurring in China (Wang, 2006). As Linder (1961) argues, international retailing is normally an extension of domestic activity. Most of the foreign retailers that entered China were influenced by both push factors, such as a mature domestic market, high operating costs,

Table 2.6 Major foreign-invested chained enterprises (2006)

Rank in top 100 retailers	Name	Country/region	Format	Sales (million RMB)	No. of stores	Growth rate (% y-o-y)
4	China Resources Vanguard	Hong Kong	Supermarket Hypermarket Convenience store	37,853	2,250	11
6	Carrefour China	France	Hypermarket	24,800	95	53
10	Shanghai RT-Mart	Taiwan	Hypermarket	19,587	68	
13	Yum! Brands, Inc. China Division	America	Western fast food	16,900	2,095	19
14	Wal-Mart (China)	America	Supermarket Hypermarket Warehouse store	15,031	71	27
16	Trust-Mart	Taiwan	Supermarket	14,000*	101*	5
17	Lotus (China)	Thailand	Hypermarket Supermarket	13,500*	75*	23
23	Metro Cash & Carry	Germany	Warehouse store	9,367	33	22
24	Hymall (Tesco)	Britain	Hypermarket	9,300	47	21
36	B&Q China	Britain	Construction material store	6,200*	58*	21

* CCFC estimates

Source: *China Chain Store Almanac* (2007).

or a small domestic market, and pull factors, such as good economic conditions, an underdeveloped retail structure, a large market, low labour costs, and a relaxed regulatory environment (Alexander, 1997; Williams, 1992b). Obviously, China provides a favourable operating environment for the development and expansion of foreign retailers (Wang, 2006). Table 2.7 shows the top ten global retailers based on the sales of 2005. A comparison of Table 2.6 and Table 2.7 shows that among the top ten foreign-based retailers in China in 2006, four of them are also very large retail organizations worldwide, namely Wal-Mart, Carrefour, Metro, and Tesco.

From 1992 onwards, there have been four significant phases in the expansion process of foreign retailers in China, with mileposts on

Table 2.7 Top ten largest retailers in the global market ranked by sales (2005)

Rank	Companies' names	Country origin	Sales (million \$) 2005
1	Wal-Mart	USA	312,427
2	Carrefour	France	92,778
3	Home Depot	USA	81,511
4	Metro AG	Germany	69,134
5	Tesco	UK	68,866
6	Kroger	USA	60,533
7	Target	USA	52,620
8	Costco	USA	51,862
9	Sears (previous Kmart)	USA	49,124
10	Schwarz	Germany	45,891E

E: estimate

Source: China Chain Store Almanac (2007).

government policy changes (Wang, 2003; Wang *et al.*, 2007). During the first phase, from 1992 to 1994, foreign retailers passed through what can be called an 'experimental' phase in China. The Chinese State Council opened China's retail market to stimulate the development of tertiary industry. However, only six large cities (Beijing, Shanghai, Tianjin, Guangzhou, Dalian, and Qingdao) and five Special Economic Zones (Shenzhen, Zhuhai, Shantou, Xiamen, and Hainan) were opened to foreign retailers (Lam, 1995; Shi and Yang, 1998), and each of the above cities was permitted to have only one or two foreign retail firm(s), which had to be operated in JVs, with less than 50 per cent of stakes held by foreign parties. Retailing was permitted, but wholesaling was prohibited. Importing and exporting certain types of merchandise were allowed, but total import was not allowed to make up more than 30 per cent of sales (Wang, 2003). During this time, foreign retailers started to enter China, with the majority of them coming from Southeast Asian countries such as Japan, Singapore, and Hong Kong.

The second phase, from 1995 to 1998, can be defined as the 'preliminary' phase of foreign retailers' expansion in China. In October 1995, the Chinese government took further steps to open the retail sector. Beijing authorized foreign retailers to operate retail chains instead of opening single-store only. A partnership with Chinese retailers was a must with the Chinese partner holding a majority of the shares. During this period, foreign retailers from Western Europe and the US began to enter China. As mentioned before, the period of interest for this research work started at this particular time, when Western retailers started to enter the Chinese market in 1995.

The third phase was the 'developing and adapting' phase, lasting from 1999 to 2000. In June 1999, the Chinese central government further liberalized the retail market. Retail firms with FDI were allowed to develop their businesses in all provincial capitals, capitals of autonomous regions, municipalities directly controlled by the central government, and municipalities with independent development plans as well as Special Economic Zones (East Asian Executive Report, 1998). Joint Sino-foreign retailers were also allowed to operate wholesale as well as retail. Majority foreign ownership (but no more than 65 per cent) became legal for the joint retail chains that had potential to purchase large quantities of Made-in-China products and export them to other countries although wholly foreign-owned enterprises were still prohibited.

In addition, new criteria were established for the selection of foreign retailers and Chinese partners. From this time, further overseas entrants had to be large and experienced retailers with a good reputation and performance record. To be eligible, entrants had to provide a minimum business capital of US\$200 million and had to achieve annual sales of at least US\$2 billion. They were expected to have well-established international distribution networks and be able to help exporting Made-in-China products. Chinese partners also had to be large retailers with a minimum capital of US\$6.2 million and have achieved minimum annual sales of US\$37.5 million. Moreover, favourable treatment was given to the JV firms that were willing to set up business operations in the Western region of China to encourage business developments in this underdeveloped area. Foreign retail firms could not charge more than 0.3 per cent of the annual sales of the JV for technology transfer or for using their registered trademarks (State Economic and Trade Commission and Ministry of Foreign Trade, 1999).

In the fourth phase, starting from April 2000, the Chinese central government decided to reduce or even waive land transfer fees or land usage fees according to the specific circumstance. For instance, retail operations with more than 25 per cent foreign investments in Xining and Haidong in Western China were exempted from payment for land usage (land cannot be owned by private enterprises according to laws in China, and usage fees need to be paid to governments by any land user). During this period, more foreign retailers realized the huge potential in gaining profits in China and they started their 'development and adaptation' phase based on the experiences they had had in other international markets and in China. This means that foreign retailers were not only developing and adapting in the Chinese market, but they were

also starting to 'adjust and adapt' appropriate strategies to suit further expansion.

Since 2001 after China joined the WTO, foreign retailers have launched an aggressive expansion phase because of further improvements within the business environment. The Chinese government has started to adjust market entry and operation policies step by step. All the restrictions on foreign ownership and numbers of branches were lifted by the end of 2004. Foreign retailers can now benefit more from preferential treatment and face fewer obstacles when entering or operating in China.

Conclusion

This chapter provided the background to the research by analysing China as a new emerging market. With the Chinese economy in transition, China's WTO entry, and significant amounts of FDI flowing into China and its retail sector, foreign retailers have started rapid expansion activities in the Chinese market. Chapter 3 discusses theoretical frameworks and sets up propositions for this research in order to answer the research questions and achieve the research aim and objectives given in Chapter 1.

3

Theoretical Frameworks and Propositions

Introduction

Chapter 2 has provided an overview of changes in China's economic environment and retail sector, focusing in particular on the transitional period from 1995 to 2005. This chapter will develop a body of theoretical background as the basis to support the answers to the research questions presented in Chapter 1. First, this chapter will review the early scholarly literature, focusing on international retailing and business. Second, it will review the more recent research trends, focusing in particular on the retail internationalization process. Next, the chapter will identify the gaps in the relevant research area. After that, based on the theoretical background, the chapter will set up the research propositions which guide this research. Each of the propositions will be explained within a broader context of the international retailing and international business literature. The chapter will finally draw a conclusion.

3.1 Research trends in the course of time

This section reviews the international retailing literature between the 1960s, when the international activities of US retailers were booming, and the 2000s, at which time retail internationalization began to show new phenomena in both developed and developing countries.

Early academic studies of international retailing carried out in the USA in the early 1960s helped to establish a foundation to explain their expansion when the USA had special advantages in their retail model compared to other less developed markets (Wood and Keyser, 1953; Yoshino, 1966; Hollander, 1970). For example, Yoshino (1966) analysed the critical conditions that contributed to the success of

American retailing concepts in foreign markets. Apart from political factors, Yoshino noted that there were four main factors of importance: consumers' economic profiles, the direction of economic and social change, the characteristics of distribution systems in particular economies, and the local attitudes towards cultural innovation. Yoshino also argued that American firms operating overseas had two major problems: the development of suppliers and the development of local managerial personnel. These six factors may still influence the expansion process of American or other international retail firms from developed countries in or into emerging markets such as China. Hollander (1970) emphasized the political and economic influence on retailers' international operation development and the importance of declining domestic opportunities for international retail expansion.

The work of Yoshino (1966) and Hollander (1970) identifies the main factors that should be noted regarding the expansion of international retailers in a foreign market: political and economic conditions, social and cultural issues, the local retail structure, such as the distribution system, supplier development, and local management issues. These ideas have been developed or combined into models and frameworks to provide a sound basis for further research. Further studies should consider whether and how these factors influence the expansion process of foreign retailers in a variety of contexts, including investigation of international retailing in a large, transitional market like China.

From the late 1970s to the early 1980s, there was an increasing level of research activity on international retailing. This work was mainly built on and referred to earlier work in the area. Particularly, authors referred back to Hollander (1970). The research at this point was still engaged in identifying important factors that influenced the international activity of retailers, but did not analyse why and how it happened through detailed interpretation. For example, Waldman (1978) aimed to identify meaningful factors in multinational marketing management in mass retailing firms based in Europe, particularly English and French speaking countries.

From the mid-1980s through the 1990s, the research in international retailing was not only aimed at identifying the international activities of retail firms, but also started to analyse how and why those activities happened. For instance, Kacker (1985) assessed the prevailing trends in international retailing based on an analysis of European investments in the US retail market, that is, in the transatlantic region. Exstein and Weitzman (1991), Sternquist (1997), and Alexander (1999) all found

that the increase in international activities stimulated European retailers to invest in the US market.

When analysing the expansion process of international retailers, location, investment, and international activity were emphasized. The expansion of retailers in the global market also encouraged scholars to analyse the motivation behind their international activities. At the beginning, 'push factors' were emphasized. These are issues that made retail internationalization imperative, resulting from environmental or company-specific conditions (Alexander, 1995). These analyses considered how a high level of competition, format maturation, and heavy regulation in mature domestic markets influence the international activities of retailers (Kacker, 1985; Treadgold and Davies, 1988). This 'reactive' school of thought suggested that retailer internationalization is a reaction to limited opportunities or other negative factors in domestic markets which push retail firms towards international markets (Alexander, 1997).

Between the late 1980s and early 1990s, new empirical research led to the development and analysis of the factors that encouraged retailers to take a more spontaneous approach to international expansion, being attracted by foreign markets (Alexander, 1990a, 1990b; Williams, 1992a, 1992b). For example, Williams (1992a) argued that factors relevant to the reactive response to internationalization were not the main reason behind the internationalization of UK retailers at that time. He found that proactive motives, such as a drive to achieve greater economies of scale (larger economies of scale and reduced fixed costs per unit lead to higher profits or allow for lower prices to capture a larger market share), as well as the attractiveness of international markets with stable politics, growing economies, freer trade, and large populations can 'pull' retailers to internationalize. Retailers' know-how and techniques transferred from domestic markets can help them to establish effective international distribution systems and supply chains, and stimulate firms to further international expansion (Williams, 1992b). These factors can also be seen as 'pull factors' that attract retailers to internationalize by providing potential advantages in host markets.

In the mid-1990s, international retail activities in the Far East attracted a great deal of research to identify what can be most attractive in an emerging global-regional market with high potential for the internationalization of retail firms (Sternquist and Runyan, 1993; Treadgold, 1995; Chen and Sternquist, 1996; Forsythe *et al.*, 1996; Yang and Keung, 1996). Alexander and Myers (1999) described European retailer expansion in Southeast Asia, focusing on 'First Wave Tigers' (Japan, Taiwan,

Hong Kong, Singapore, and South Korea) and 'Second Wave Tigers' (Thailand, Malaysia, and Indonesia). They pointed out that there was a lack of empirical research on emerging markets in Asia such as China because of the significant difficulties in obtaining meaningful data, and because the existing retail and distribution sectors operated informally and lacked an appropriate transportation network (Alexander and Myers, 1999). With the recent dramatic changes in China's retail environment, particularly after its entry into the WTO and the changing policies towards foreign retail investment, as mentioned in Chapter 2 (section 2.5), empirical research on Chinese retail has become urgently required.

Wang (2003) provided a useful analysis on the internationalization of retailing in China, which focused on a description of the government policy changes and the general activities of existing foreign retailers. He did not, however, apply a theoretical approach to explain how the expansion process of foreign retailers in China is influenced.

None of the previous work in the retail internationalization process literature has focused on China through an empirical and theoretical approach. With the increase in international retailing activities, particularly in developing countries and emerging markets, empirical and theoretical research is needed to identify the factors that influence the expansion process of international retailers, and to explain how and why these factors are influential.

3.2 Emerging research

During the progress of this work, a new piece of relevant research by Dawson and Mukoyama was published. Dawson and Mukoyama's research (2006) identified five key stages in the retail internationalization process: pre-entry, entry, post-entry development, assimilation, and exit. Each of the different stages is characterized by different activities of the firm. The relationships between the stages and various forms of the process of retail internationalization are shown in Table 3.1.

Table 3.1 shows Dawson and Mukoyama's findings of the retail internationalization process categorized into different stages, each of which is characterized by distinctive activities retailers undertake. At each stage of retail internationalization, retailers have different functional, spatial, and temporal operations and activities. Dawson and Mukoyama (2006) argue that previous studies have focused on the aspects of pre-entry and entry, particularly on the different entry mechanisms, as well as the advantages and disadvantages of each, for example, Alexander

Table 3.1 Activities illustrating the relationships between stages and form of process

	Forms of process			
Stage of process	Functional operations of international stores	Spatial operations of international stores	Temporal operations of international stores	Structural operations of international stores
Pre-entry	Knowledge review; market research	Local market research	Extent of earlier operations	Strategy evaluation
Entry	Formula design	Market choice	Timing of entry	Entry method; relations with suppliers
Post-entry	Retail brand development; knowledge transfer to head office	Network development	Rate of expansion	Management of cost structure
Assimilation	Social integration of firms		Trigger to establish independent firm	Creation of subsidiary company
Exit		Sales unit closures		Sales of operation to other retailers

Source: adapted from Dawson and Mukoyama (2006: 35).

(1997); Doherty (1999); Alexander and Myers (2000); Dawson (2001) and Evans *et al.* (2000). These studies are very useful; however, their focus on pre-entry and entry stages of retail internationalization dealt with only parts of the overall process of retail internationalization (Dawson and Mukoyama, 2006). It is constructive that Dawson and Mukoyama (2006) provided a clearer categorization of the stages for the retail internationalization process and the authors offered a general analysis of what influences the entire process of retail internationalization. However, the authors did not specifically analyse which factors and how these factors influence the expansion process of foreign retailers in a foreign market at their post-entry stage. The focus of this book is in particular on the expansion of international retail firms in China, operating at the post-entry stage.

Time is an important factor in the retail internationalization process. Retail firms take different amounts of time at each stage in

different markets, and their managerial activities are also different at each stage (Dawson and Mukoyama, 2006). Some retailers became involved in international activities over a long period in a certain market such as Wal-Mart in China (from 1995). For others, such as Tesco (from 2004), their retail activities in China are relatively recent. There is clearly a temporal dimension in foreign retail firms' corporate learning activities (Currah and Wrigley, 2004). For example, Carrefour had already spent a significant amount of time on the learning curve because of their abundant international experience, having previously entered several foreign markets. From this experience, Carrefour learned quickly how to identify the potential of a market for future growth. Carrefour expanded rapidly in China, to become the biggest foreign retail firm in the country (Wang *et al.*, 2007). Carrefour also had the experience to decide when to withdraw from markets: their decisions to withdraw from the US, the UK, Germany, and Japan were all very swift (Dupuis and Prime, 1995; Dawson and Mukoyama, 2006).

The international flows of merchandise directly sourced by retailers are becoming an important and increasing part of world trade. Retailing is now an international activity with evidence such as in the sourcing of goods for resale, the operation of shops, and the usage of foreign labour, ideas, and capital, and there has been an increase in both the volume of international activities and a wider spatial reach of international activity in all respects (Dawson and Mukoyama, 2006). International sourcing is now increasing in China. The volume of products directly imported by retailers has increased notably. Chaturvedi (2006) forecasts that in the fifteen years following 2005, up to 20 per cent of global retail sales will come from China. This demonstrates that retailers have internationalized their direct purchasing and sourcing practices in China, which has contributed to significant increase in other activities of foreign retailers in China such as opening more stores with aggressive expansion. When facing a specific business environment in an emerging market such as China, the factors that influence the expansion process of foreign retailers need to be better understood, hence the relevance of this study.

3.3 Theoretical frameworks

For this study, which focuses on the expansion process of retail firms in their post-entry stage in China, three main frameworks are selected

from the recent retail internationalization process literature to help to set up the research propositions.

3.3.1 Rationale for choosing the theoretical frameworks

It must be noted that retail internationalization is geographically tied, and requires retail firms to be physically present in a foreign market thus involving both cultural and economic geography. Cultural and economic borders influence the pace of retail growth. Obviously, there could not be contributions to the retail internationalization process from China's market before the country started to open to world trade. Therefore, with more and more international retailers having expanded into China, an updating of the disciplines and concepts is needed in the international retailing literature (Sternquist, 1997).

There have been some recent papers that considered the integration of retail internationalization studies and developed conceptual frameworks for understanding the retail internationalization process, as well as drawing on the wider literature focusing on internationalization, for instance, Sternquist (1997), Alexander and Myers (2000), Evans *et al.* (2000), and Vida and Fairhurst (1998). In order to achieve the research aim and objectives and answer the research questions, certain important theoretical framework(s) have been selected to provide the main basis for this study. The selection process has been guided by the following rationale.

First, in order to take research forward, newer theories are normally based upon previous ones. The elements addressed in previous frameworks are normally connected to the later frameworks. For example, Sternquist (1997) designed a Strategic International Retail Expansion (SIRE) model, which is mainly based on Dunning's (1981, 1988) theory, focusing on ownership, location, and internalization factors that influence strategies of retailers' international expansion. Sternquist defined 'strategic internationalization of retailing', indicating that retailers intentionally consider internationalization options as part of the overall market expansion strategy. The model used examples of US retailers expanding in the international market. The factors addressed in the SIRE framework were also adopted by Alexander and Myers (2000) in their framework, which emphasized how retail firms' location decision, entry mode, and expansion strategies were influential in their internationalization process. This example illustrates that a more integrated framework can provide a holistic approach to help to analyse how the expansion process of foreign retailers is developed in China, a collection of markets.

Second, previous studies tended to concentrate on the macro-market as the main element in analysing the retail internationalization process. Buckley (2002) argued that the international business research agenda is running out of steam. He believes that the agenda has stalled since no such big question in international business research has currently been identified. Peng (2004) challenged Buckley's suggestion, and stated that the questions on performance of international firms have the potential to help to define the international business field from other disciplines by capturing the meanings of both the 'international' and 'business' elements. International business research can pursue the answer to the question 'What determines the international success and failure of firms?' International firm performance mentioned here concerns both domestic and international firms. International business research is not likely to run out of steam, because questions concentrating on international firm performance can leverage comparative advantage of international business and keep the field engaged in generating disciplines, theories, and findings (Peng, 2004).

Since this book will identify the factors that influence the expansion process of international retailers in China, its theoretical approach and implications can further contribute to the knowledge of international retailing and international business, because the expansion process of international firms can directly influence their performance, success, or failure. The study can also raise further research questions from perspectives of both the domestic and foreign retailer. Therefore, this study will integrate important frameworks in the retail internationalization process as the main theoretical background, which can provide a good basis for directing future research beyond the immediate aim and objectives of this research.

In this research, three recent frameworks are considered: Vida and Fairhurst (1998), Alexander and Myers (2000), and Evans *et al.* (2000). The reasons of choosing these three frameworks are:

1. They introduce recent conceptual synthesis for a better understanding of retail internationalization, and explain how and why identified factors may influence the performance of international retailers in other markets by building on previous studies of the retail internationalization process and focusing on entry modes. This can provide a good basis for this study to clarify whether identified factors in previous retail internationalization process literature can sufficiently explain the factors influencing the expansion process of foreign retailers in China.

2. Although these frameworks tend to analyse the factors influencing the international performance of retailers, their main focuses are on retail firms' pre-entry and entry stages. The research propositions set up based on these frameworks and new findings (if any) are expected to provide stronger theoretical background to connect more strongly previous literature and future research: for instance, the further stages of retailer internationalization after post-entry, their overall performance, and assimilation or exit stages.
3. This study will then be able to construct a holistic model to answer the research questions and provide both theoretical and practical implications. The main three frameworks are explained, analysed and integrated as follows.

3.3.2 A framework of factors influencing the retail internationalization process

Vida and Fairhurst (1998) address a theoretical approach based on a behavioural paradigm and propose a framework for the retail internationalization process, which can be used as a basis for analysing international retail expansion. It is a dynamic framework: the starting point antecedents, namely external environment, decision-maker, and firm's characteristics, influence the retail internationalization process, which involves promoters and inhibitors. Based on the analysis of antecedents and the judgement of retail internationalization process, firms will have internationalization outcomes represented by entry mode and market selection. The firms will then make strategic decisions on retail management considerations. These will involve decisions about operational aspects of international retail strategies. Entry mode, market selection, and retail management considerations are seen as the outcomes of the model, which should be able to help the firms evaluate their performance in international retail operations. This in turn will influence the antecedents and then the balance of promoters and inhibitors in the next decision cycle, depending on what and how the firms have learned from their retail internationalization process. This framework is shown in Appendix 1.

Vida and Fairhurst's (1998) framework suggests that firm and management characteristics are internal driving forces behind the international retailing process, which are influenced by the external environment. Based on the changes of antecedents, it is inevitable that firms will make decisions about increasing or decreasing their international retail involvement, that is, whether the firm will initiate international retail

activities, maintain a constant level, increase or decrease the level of international retail involvement, or withdraw from the markets. During this period firms need to make two critical decisions: where to allocate their resources and how to enter international markets. After all the above, retail firms are required to make strategic decisions about retail management considerations regarding international retail operations, such as adaptation versus standardization of retail activities, formats, and offerings in international markets. All factors including entry modes, market selections, and retail management considerations will eventually influence the performance of international retail operations.

Vida and Fairhurst's framework focuses on market entry strategies rather than further stages of the retail internationalization process. However, this dynamic framework provides an overall picture of international retailers' internationalization process and can be used as a basis for future research on expansion activities of retailer operations in international markets (Vida and Fairhurst, 1998). This framework is therefore adopted to analyse factors that influence the expansion process of foreign retailers in the Chinese market in this book.

When adopting Vida and Fairhurst's (1998) framework, notice should be taken of the following points: (1) Although this framework indicates an external environment, it does not emphasize how and in which particular situation the external environment influences retail firms' international involvement. This raises the question of how the external environment of foreign retailers in China influences their expansion process. (2) Although the framework addresses firms' performance of international retail operations, it particularly focuses on firms' entry mode and initial market selection and therefore does not have the ability to explain how identified factors such as external environment and characteristics of firms and decision-makers influence the expansion process of foreign retail firms at their post-entry stage.

Vida and Fairhurst's framework therefore provides two important factor categories that can be used as theoretical background to set up propositions: external environment and internal competencies. According to specific characteristics of the economy and retail sector in China as mentioned in Chapter 2, the analysis of the external environment factor category in this book particularly focuses on deregulation and opening of the market and central and local government policies. The factor category of internal competencies involves firms' and decision-makers' characteristics.

3.3.3 A framework of operational internationalization

Adopting most of the external and internal factors addressed in Vida and Fairhurst's (1998) framework, Alexander and Myers (2000) from the corporate perspective developed a framework to highlight those factors that determine the internationalization process on the basis of the retail organizations' characteristics within the context of where the retailer is operating. This framework analyses in a broader context more factors that influence retail firms' entry methods, location decisions, and retail strategies. The framework is shown in Appendix 2.

It is also a dynamic model: the starting points are drivers of change, including concept-based and technology-based advantages, for example, brands owned by retailers or means by which economies of scale are more efficiently exploited through operations. These can be seen as firms' assets, which are determined by the internal facilitating competencies within the retail enterprises, including leadership qualities, abilities to coordinate different functional areas in a firm based on an international market, as well as managers' experience, perceptions, and attitudes. Internal facilitating competencies are tools through which the firm can transfer their advantages within the international market.

According to the internal facilitating competencies, firms will make location decisions, adopt entry methods, and set up expansion strategies, which are determined by the drivers of change and the abilities of managers to exploit the advantages from these drivers. Location decision, entry mode, and expansion strategies in turn will dynamically increase or decrease companies' internal facilitating competencies, depending on whether these firms learn or fail to learn from the international market. The drivers of change will again be influenced by the firms' capabilities to respond to the market conditions.

Alexander and Myers's (2000) framework also does not focus on any elements in firms' expansion process or performance, but provides more detailed factors that help to determine retail firms' location, entry mode, and operational strategies. Some of the factors in this framework can be adopted in combination with the factors addressed in Vida and Fairhurst's (1998) framework as a more comprehensive tool to help to explain the expansion process of foreign retailers in China. Since this book focuses on firms' expansion process, it is therefore useful to adopt from Alexander and Myer's framework how firms' location choices are influenced by political, economic, social-cultural, and local retail structure issues as one factor category to set up propositions. It should be noted that the entry mode for foreign retail firms' entry into China was restricted to JVs at the end of 2004. Since this book covers the specific

period between 1995 and 2005, entry mode will not be given particular emphasis. However, this should be pursued in future research.

3.3.4 A framework of psychic distance and the performance of international retailers

Psychic distance is defined as ‘the distance between the home and foreign market resulting from the perception and understanding of cultural and business difference’ (Evans *et al.*, 2000: 377). These differences include legal restrictions, languages differences, market structure, and so on. Evans *et al.* (2000) tended to present a holistic framework based on international retailing and international business literature, emphasizing that the power of psychic distance influences international retail operations and results in variations in their performance. They state that firms’ organizational and managerial characteristics together with the psychic distance concept provide a holistic framework for further research to explain retailers’ different operational performance in foreign markets. This model is shown in Appendix 3.

The framework of Evans *et al.* (2000) indicates that organizational and managerial characteristics influence psychic distance, so that firms conduct different decision-making process and entry strategies, which decide the nature of the retail offer and further organizational performance. When firms have entered an international market, their understanding of psychic distance between home and host countries will influence their future performance. The degree of influence depends greatly on what firms have learnt from the international market (Evans *et al.*, 2000). Since this framework argues that psychic distance eventually influences foreign firms’ further organizational performance, it is useful to adopt ‘psychic distance’ to explain whether and how it influences the expansion process of foreign retailers in China.

3.3.5 Integration of the chosen frameworks

According to the above analysis, it will be helpful to combine the three frameworks in order to provide a more holistic framework upon which research propositions can be set up for the purpose of this study.

Among these three frameworks, the framework of factors influencing retail internationalization process has the best approach in support of the aim of this study. This study therefore adopts the dynamic structure of Vida and Fairhurst’s (1998) framework as the most appropriate structure, extended by factors adopted from the frameworks of Alexander and Myers (2000) and Evans *et al.* (2000). Therefore, the research propositions are set up based on the structure of this integrated

framework. Then, a new holistic model will be developed to explain factors influencing the expansion process of foreign retailers. The factors to be used in propositions are based on the structure of the integrated framework shown in Figure 3.1.

When applying the integrated framework, the following points need to be noted: First, in Vida and Fairhurst's framework there are several factors that impede adequate comparisons, including various operational systems, the inconsistent use of different time periods, and, in particular, the fact that the research was conducted in various countries, and within firms that have different internal structures. By contrast, the research presented here is based on similar operational systems (hypermarket, supermarket, and department stores), in the same country (China) and the same time period (from 1995 to 2005), and within firms that potentially have similar internal structures because of the similar formats they operate.

Second, all selected frameworks focus on market entry strategies. In other words, the retail internationalization process in the integrated framework can be identified as Douglas and Craig's (1989) 'initial foreign market entry', which is the first step of international marketing strategy, because the firm is still in a new position in the international market, rather than being an experienced multinational company. This study, however, is looking to extend this integrated framework to analyse how and why foreign retailers expand in China, considering the post-entry stage.

In addition, psychic distance, by definition, is considered as one of the important factors when analysing the expansion process of foreign retailers in China in this study. Based on the three chosen frameworks, psychic distance can be given the central position to link international retail firms' external environment, internal competencies, and their location choice in the expansion process. It is important to analyse whether psychic distance is influential throughout the process of foreign retailer internationalization in China, where different regions have different cultures and local governmental policies. Also, Chinese cultures as a whole are very different to those of Western and other developed countries, regarding language, political issues, and business management systems and styles (Wang, 2003).

Since this book particularly focuses on factors influencing retail firms' expansion process, four factor categories will be investigated and explained: external environment, internal competencies, psychic distance, and location choices. The other components in the integrated framework will not be analysed in depth. The propositions will be set

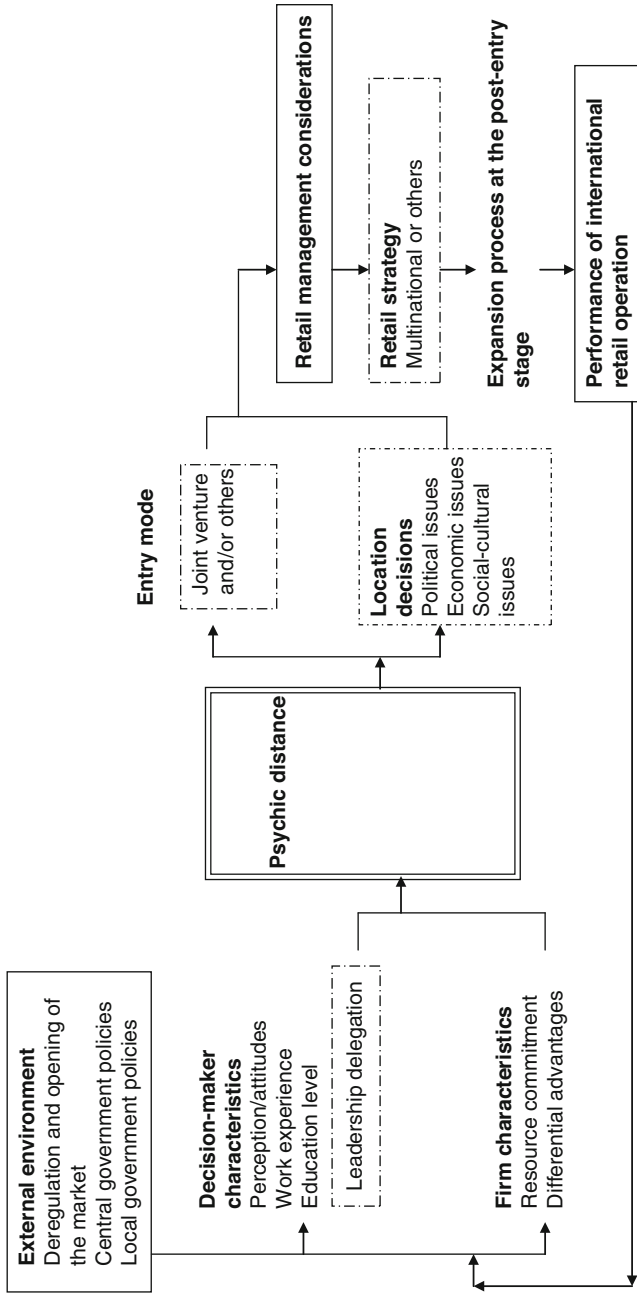


Figure 3.1 Factors to be set up in propositions based on the integrated theoretical framework

Source: combined models by author.

Vida and Fairhurst's framework Alexander and Myers' framework Evans et al.'s framework

up for these four categories and on the basis of relevant literature in international retailing and international business for each factor in these categories.

3.4 Propositions

In this section seven propositions are formulated. On the basis of Figure 3.1, the factors to be explained in the propositions in this study are with particular reference to the research background of the Chinese market. The relationships between the factors addressed in the propositions will also be analysed and explained by applying the integrated framework. Particular attention is given to the factors that are expected to significantly influence the expansion process of foreign retail firms in China. Any themes subsequently emerging from the data analysis will make contributions to the result of this study.

By referring to the integrated framework and considering the special characteristics of China's market, the literature review will give details for the following factors to be analysed in the four factor categories:

1. The *external environment* involves deregulation and the opening of the market such as China's WTO entry and the influences of central and local government policies on foreign retailers' expansion process in China.
2. The *internal competencies* of the firms include the firms' characteristics identified by the firms' resource commitment, differential advantages, and international experience; and the decision-makers' characteristics, including their perception and attitudes, work experience, leadership delegation (empowerment to Chinese managers), and education level.
3. The *psychic distance* refers to how firms' corporate culture and management styles deal with cultural and business differences between the home and foreign markets.
4. The *location choices* involve political, economic, and social and cultural factors.

3.4.1 External environment

Both the macro-environment and micro-environment influence retailers' international expansion process (Sternquist, 1998). The external environment can encourage firms to enter or expand in an international market by providing opportunities. However, the uncertainty and unpredictability of the external environment is also an important factor in the decision-making about international operations (Anderson and

Gatignon, 1986). Country risk factors such as political instability, and economic and foreign exchange fluctuations are important to foreign firms (Herring, 1983). Even though there are some issues with Taiwan and Tibet, and a continuing campaign against corruption, China generally provides a stable environment for foreign businesses. Although the Chinese yuan has been revalued against the US dollar, the euro, and the pound sterling, China still has a trade surplus of around 11 per cent of GDP, and its public debt is a mere 17 per cent of GDP, compared to an OECD (Organisation for Economic Co-operation and Development) average of 77 per cent (MINTEL, 2008b). The Chinese government benefits from the fast growing economy and rising living standards, creating a stable political environment for foreign business investments. China therefore provides enormous opportunities for foreign retailers (MINTEL, 2008b). Foreign retail firms should be able to benefit from these advantages when expanding in China. Based on the influence of external environmental factors on China's retail sector, this study analyses the influences of deregulation and opening of the market such as China's entry into the WTO, and central and local government policies on the expansion process of foreign retailers.

3.4.1.1 Deregulation and opening of the market

Retailers are attracted by economic development. Both a relatively high level of development and low level of growth contribute to market attraction based on economic development. On the one hand, international operations may be encouraged to develop where markets have high-spending consumers, such as the cosmopolitan markets of the New York–London–Paris axis (Hollander, 1970). On the other hand, trading firms may be attracted by the underdeveloped markets to grow retail operations in the transitional economies where there is a lag between the development of retailing provision and growing retail market demand (Alexander, 1997). Foreign retailers' entry into and expansion in China were influenced by such pull factors as the growth of the middle-class and the relatively underdeveloped retail market (Wang *et al.*, 2007).

The changes in government policies regarding the commitment to systemic transformation, macroeconomic stability, infrastructural development, and establishing a market-oriented legal framework in transitional economics attracted FDI (Meyer, 1998). China is a good example of attracting FDI by providing macroeconomic stability within its transitional process as analysed in Chapter 2. More than half of the developing countries are participating in globalization by increasing their involvement in international trade and significantly decreasing their tariffs in order to catch up with developed countries (Winters,

2004). China's entry into the WTO has gradually lifted restrictions on foreign retailer expansion and raised living standards in the country. Foreign retailers have benefited from China's trade liberalization and the increase of income in China, which directly influences retail consumption. In order to identify and explain the influence of the deregulation and opening of the market on the expansion process of foreign retailers in China, proposition 1 is set up as follows:

- **Proposition 1**

The deregulation and opening of the market, in particular, China's entry into the WTO, has had a significant influence on the expansion process of foreign retailers in China's market.

3.4.1.2 Government policies

Government policies determine regulatory conditions, which are influenced by cultural assumptions, economic development, and social conditions. Government policies towards economic and social development will indirectly influence retail development, and governmental regulatory constraints influence both foreign and domestic retailers (Alexander, 1997).

Similar to other developing countries, China does not have a comprehensive set of legal rules that provide protection for foreign investors, and the country therefore lacks the ability to govern the operations of corporations and securities in the market. In addition, because of the country's socialist legacy, explicit protection for private property rights was only instituted in 1999. Most listed companies remain state-owned; therefore protection for large private investors is quite weak due to the ambiguity of public property rights (Kato and Long, 2006). The property rights issue can be an influence on foreign retailers' location choices in different cities and regions of China based on the authorities of local government.

Relaxation of the regulatory environment is one of the pull factors that attract retailers to expand into a new market (Alexander, 1997). Major changes have occurred in China's market and its retail sector since 1992 (Sternquist and Qiao, 1995; Alexander and Myers, 1999; Wang, 2003; Wang *et al.*, 2007). All the regulatory changes in China had a direct influence on the expansion process of foreign retailers, particularly from 1992 when China opened its retail sector through to 2001 when China joined the WTO and continuing to 2004 when all the restrictions were lifted in China's retail sector (as summarized in Table 2.5 in Chapter 2).

Since there are many different administrative divisions and cities in China (see Appendix 6), it is important to analyse the influence of

both central government and local government policies on the expansion process of foreign retailers. Local governments have important regulatory authority in China, including exercising discretion in setting tax, specifying entry barriers, and creating administrative red tape for businesses operating within their jurisdiction. Some local governments protect firms they own from those they do not own (Law *et al.*, 2003). In order to identify and explain how and why central governmental and local government policies influence the expansion process of foreign retailers in China, propositions 2 and 3 are set up as follows:

- **Proposition 2**
Central government policies are important factors that influence the expansion process of foreign retailers in China's market.
- **Proposition 3**
Local government policies are important factors that influence the expansion process of foreign retailers in China's market. These mainly involve local government taxation, approval for opening new stores, and other support from the local government.

3.4.2 Internal competencies

Not only macro-elements but also micro-factors at the organizational level are vital for firm internationalization. For example, organizational changes may be required when transferring formats across boundaries to enable management structures to achieve stable international growth (Whitehead, 1992). Lack of knowledge and resources are the big obstacles to internationalization (Johanson and Wiedersheim-Paul, 1975). Therefore, firms' internal competencies need to be considered in the expansion process of foreign retailers in China. This will allow us to focus on firms' characteristics as well as decision-makers' characteristics.

3.4.2.1 *Firms' characteristics*

Firms need to satisfy certain conditions before internationalizing. Dunning (1981) used an eclectic approach to explain the changing pattern of internationalization of production firms. He pointed out three conditions that have to be fulfilled for FDI to take place: ownership-specific advantages, internalization advantages, and location-specific advantages. *Ownership-specific advantages* are unique factors that a company possesses, which can be either asset or transaction based. The former refer to unique products or the company's reputation, such as a well-known brand name, patents, or copyrights. The latter are relevant to how a company does things, for example gaining economies of scale

from large-scale operations. *Internalization advantages* refer to a situation in which a company's knowledge is not shared with others and overall the way in which company secrets are handled. *Location-specific advantages* are related to how suitable and attractive a host country is to a foreign firm.

Dunning's approach was used to explain US retailers' FDI by Sternquist (1997). When retail firms have opportunities to internationalize, they will choose a certain formulation and implementation of internationalization according to an international strategy that can help to build on a firm's core competencies (Dupuis and Fournioux, 2006). Not only do firms need to have resource commitment and differential advantages as stated in the framework of Vida and Fairhurst (1998), but a firm's learning from the internationalization process also enriches its core competencies and in turn, the firm's core competencies contribute to the success of its international operations and future growth. Figure 3.2 demonstrates a retailer's process of building an international strategy.

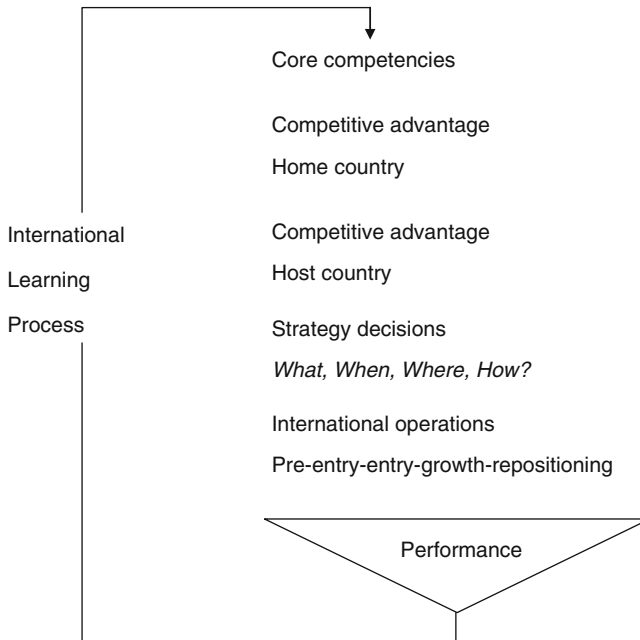


Figure 3.2 Building an international strategy

Source: Dupuis and Fournioux (2006: 53).

According to Figure 3.2, the core competencies of retail firms influence their competitive advantages in both home and host countries. Their core competencies also have an impact on their strategic decisions, and the way they manage their international operations through the pre-entry, entry, growth, and repositioning process. All of the above elements will further influence the firms' performance. Firms learn from the whole process that builds up their core competencies. Retailers' core skills can be reflected by their capacities to adapt their business formula, including the store concept, logistics, and organizational capacity, as well as their ability to develop relationships with suppliers and customers (Dupuis and Fournioux, 2006).

Applied to the Chinese market, where Western retail formats are just emerging (as discussed in Chapter 2), this study adopts the holistic approach to the firms' characteristics developed in the conceptual frameworks of Vida and Fairhurst (1998) and Evans *et al.* (2000). Vida and Fairhurst (1998) suggest two characteristics internal to the firm play an important role in the retail internationalization process: resource commitment and differential advantages. A number of writers have noted that an increase in a firm's international involvement will improve the performance of their foreign operations (Cavusgil, 1980; Cavusgil and Zou, 1994; Johanson and Wiedersheim-Paul, 1975). In the framework of Evans *et al.* (2000), the emphasis is on the firms' organizational characteristics and their international experience, which are positively linked with organizational performance. They argue that the more experienced a retailer becomes, the more positive the relationships will be between psychic distance and organizational performance. These connections are interesting and potentially important, but need to be supported by empirical research in the Chinese retail market. Considering the above, this study will investigate the following factors under the category of firm's characteristics: resource commitment, differential advantages, and international experience.

Resource commitment refers to a firm's financial and human resources capacity for international expansion, and the level of resources committed to international expansion (Vida and Fairhurst, 1998). *Differential advantages* refer to the uniqueness of a firm's products or services introduced in the international market (Cavusgil 1982), such as a unique retail concept, close relationships with channel members, competitive pricing (Williams, 1991), and new formats (Katzen, 1993). *International experience* refers to the experience of a retailer gained by operating in foreign markets (Treadgold, 1991; O'Grady and Lane, 1996; Evans *et al.*, 2000).

Proposition 4 is set up to identify and explain how and why firms' characteristics based on the above concepts are important factors that influence the expansion process of foreign retailers in China's market.

- **Proposition 4**

Firms' characteristics are important factors that influence the expansion process of foreign retailers in China's market, especially firms' resource commitment, differential advantages, and international experience.

3.4.2.2 Decision-makers' characteristics

In the international marketing literature, the behavioural approach to the internationalization process has been attracting academic researchers since the late 1960s to analyse the influence of firms' characteristics and managers' attitudes to foreign markets and marketing systems, where managers' attitudes are seen as a key criterion (Wind *et al.*, 1973). For example, Aharoni (1966) argues that market knowledge and market commitment affect decisions, and in turn these factors change market knowledge and commitment. The foreign investment decision-making process is a complex social process, which involves intricate structures of attitude, opinion, and social relationships inside and outside the firm and the way all these factors are changing. The foreign investment decision-making process contains various elements of individual and organizational behaviour, which are influenced by perceptions of the past, present, and future.

In the international business literature throughout the 1980s, researchers continued to attempt to explain how behaviour and attitudes change a firm's experiences during its internationalization process (Johanson and Vahlne, 1977, 1990; Johanson and Weidersheim-Paul, 1975). For example, the dynamic Nordic model of Johanson and Vahlne (1977) is based on the belief that internationalization is the product of incremental decisions, and the internationalization process consists of all the decisions taken together. Johanson and Vahlne (1990) found that an experienced decision-maker can perceive future transaction costs differently from an inexperienced one, and the latter might be influenced by their lack of knowledge about the foreign market and also by their lack of established relationships with key parties, especially customers in the foreign market. For several researchers, the decision-makers' characteristics have been seen as having an important influence on international company behaviour and strategy (Hollander, 1970; Treadgold, 1990; Williams, 1991, 1992a; Vida and Fairhurst, 1998; Vida *et al.*,

2000). This also applies in international retailing, where managerial knowledge, experience, and attitudes have been considered essential (Hutchinson *et al.*, 2006a).

There are some specific characteristics of decision-makers that are important in the Chinese context. Although relationship marketing has been seen as the newest paradigm since the 1990s and the importance of developing relationships for effective marketing has been highlighted in recent research (Sharma and Pillai, 2003), Western literature has almost exclusively concentrated on '*guanxi*' as a vital part of relationship marketing in China. '*Guanxi*' can be translated as 'relationship', 'connections', or 'networking'. In fact, *guanxi* is far more complicated than all of those (Wang *et al.*, 2005). The word '*guan*' literally means 'door' or 'barrier', in business terms, doors are opened or barriers overcome, and it depends on the right connections (Parrish, 2003). '*Xi*' refers to tying up and extending relationships, for example, kinship and directly related family members. This implies formalization and hierarchy (Luo, 1997). The common aspect of '*guanxi*' in initiating relationships involves the giving of gifts or hosting of banquets (Yang, 1994). Then, *guanxi* networks may be developed based on these initial relationships. *Guanxi* in China refers to obligations or indebtedness, a system of favours and debts among people in the network based on relationships (Wang *et al.*, 2005).

Sternquist and Chen (2006) argue that both *guanxi* and trust are key factors in understanding and approaching the decision-making processes among Chinese retailers. There is research that has been done on both *guanxi* and trust. A number of studies have found that *guanxi* is a significant influence on a firm's performance in China (Luo and Chen, 1997; Ambler *et al.*, 1999). Although cultivating *guanxi* is performed through cultivating personal relationships in the business context in China, *guanxi* can be compared to relationship marketing (Yang, 1994; Lo and Otis, 2003). How to deal with *guanxi* and trust is therefore vital for decision-makers of foreign retail firms for making decisions on firms' expansion process. Thus, decision-makers' characteristics can be crucial for the expansion process of foreign retail firms in China.

By using the Nordic model, which explains how behaviours and attitudes change a firm's experiences during its internationalization process, Vida and Fairhurst's (1998) framework identified three elements of decision-makers' characteristics, which are influenced by the external environment: perceptions and attitudes, experience, and knowledge. Alexander and Myers's (2000) framework includes leadership, in addition to perceptions, attitudes, and experience, as one of the elements in firms' internal competencies, which influence the retail

internationalization process. Evans *et al.* (2000) argue that a manager's direct work experience gained in the foreign market is likely to result in a more accurate perception of psychic distance leading to a better performance of the firm in that market. Individuals have an important impact on shaping a firm's international strategy. It is the acquired know-how and understanding of foreign cultures, gained through travelling and living abroad, that leads to the accumulation of greater experiential knowledge of an international market (Waldman, 1978).

According to Leonidou *et al.* (1998), there are two sets of managerial factors that are important: objective factors, such as the educational background, experience, and foreign country exposure of the decision-makers; and subjective factors, such as the perceptions, attitudes, and behaviour of the decision-makers. In order to analyse more accurately how these decision-makers' characteristics influence the expansion process of foreign retailers in China through the integrated framework presented in Figure 3.2, this study focuses on four elements: perceptions and attitudes, work experience, leadership delegation (empowerment to Chinese managers), and education level.

Perceptions and attitudes refer to decision-makers' perception of the favourability of the international market together with their attitudes towards risks, complexity, and potential returns from further retail internationalization (Vida and Fairhurst, 1998). *Work experience* refers to the decision-makers' previous and current involvement in international business and retailing, their exposure to international affairs (Leonidou *et al.*, 1998; Vida and Fairhurst, 1998), and their direct experience in the host market (O'Grady and Lane, 1996). *Leadership delegation* specifically refers to a foreign manager's leadership style and their approach to the empowerment of Chinese managers in the expansion decision-making process. *Education level* refers to whether the educational background of managers influences a firm's expansion process in China (Leonidou *et al.*, 1998).

According to the above concepts, proposition 5 is set up to identify and explain how and why decision-makers' characteristics are important factors that influence foreign retailers' expansion process in China's market.

- **Proposition 5**

Decision-makers' characteristics are important factors that influence the expansion process of foreign retailers in China, including perceptions and attitudes, work experience, leadership delegation (empowerment to Chinese managers), and education level.

3.4.3 Psychic distance

Cultural distance is often used to refer to different national cultures of foreign markets in which international firms operate (Hofstede, 1983, 1991). The influence of cultural distance on retail internationalization has been considered to be particularly important (Dupuis and Prime, 1995). Tordjman (1988) refers to the cultural proximity of a target country for an internationalizing retailer. The concept of business distance was developed in the field of international business at the Uppsala Business School in Sweden (Carlson, 1975). Dupuis and Prime (1995) define business distance as the perceived gap between the domestic and host country in terms of each of the core dimensions determining competitiveness such as consumers, outlets, networks, and environment. The Uppsala studies found that firms tend to expand into markets in which the business distance is relatively short in terms of political, economic, legal, geographic, and cultural distance.

However, having a big cultural or business distance may not be the main factor to explain retailers' failure in a foreign market. The degree of adaptation to the local market can contribute to retailers' success or failure in the foreign market. Dupuis and Prime (1996) found that Carrefour's failure in the US was due to the lack of adaptation to US consumer tastes for the one-stop shopping concept. In contrast, the success of Carrefour in Taiwan has been partially attributed to its adaptation of concept to the local market. On the basis of the implied assumption of the internationalization process, it would be expected that Carrefour would not be so successful in Taiwan because of the bigger cultural and business differences between Taiwan and its domestic market, France (Dupuis and Prime, 1996). The perception of cultural and business differences enhances performance if retailers can make appropriate adaptation to the market (Evans *et al.*, 2000).

There are obvious links between cultural, business, and psychic distance. Several authors have defined psychic distance. In the early research, psychic distance was defined as 'factors preventing or disturbing the flow of information between potential and actual suppliers and customers' (Vahlne and Wiedersheim-Paul, 1973); or 'factors preventing or disturbing firm's learning about and understanding a foreign environment' (Nordstrom and Vahlne, 1994). The term psychic distance has been applied to differences between legal, political and economic environments, business practices, languages, industry structures and so on (Lee, 1998; Vahlne and Wiedersheim-Paul, 1973, 1977; Nordstrom and Vahlne, 1994). These definitions focus on learning and understanding and address the fact that psychic distance needs to be

responded to when developing appropriate operating strategies in a foreign market.

The early literature emphasized the knowledge that firms need to acquire and their need to understand psychic distance before entering a foreign market (Vahlne and Wiedersheim-Paul, 1973; Johanson and Vahlne, 1977; O'Grady and Lane, 1996). Firms need to take different steps to deal with psychic distance at different stages of the international expansion process. Firms need accurate knowledge from direct experience in the foreign market and an understanding of its internal relationships when setting up international operations, rather than more general information which can be easily learned and transmitted without the need for interpreting it (Johanson and Vahlne, 1977). These internationalization process models are based on the challenges faced by established chain stores expanding into markets with increasingly greater psychic distance (Johanson and Wiedersheim-Paul, 1975). The models are based on assumptions about the perception of market commitment, market knowledge, current business activities, and commitment decisions (Johanson and Vahlne, 1990).

O'Grady and Lane (1996) define psychic distance as a firm's degree of uncertainty about a foreign market, resulting from cultural differences and other business difficulties that present barriers to learning about the market and the operation there. They found that psychic distance is an important factor in understanding the dynamic of the internationalization process. Further, Martenson (1987) found that if management perceived cultural differences between the home and foreign markets to be significant, the management team tend to provide greater adaptation of the retail offer. Perceived similarity between Canada and the USA directly contributed to Canadian retailers' poor operating performance in the USA (O'Grady and Lane, 1996).

With further redefinition of psychic distance, the two elements psychic and distance are more emphasized. Psychic, derived from the word psyche, refers to the mind or soul; distance is related to similarities or differences regarding the degree or amount of separation between two points (Sykes, 1987). Based on the above concepts and previous literature, Evans *et al.* (2000) believe that psychic distance is not the simple presence of an external environmental factor but it is the way the mind processes the perception and understanding of cultural and business differences that forms the foundation of psychic distance. Evans *et al.* (2000) tend to define psychic distance in a more holistic way as mentioned earlier in section 3.3.4 (they define psychic distance as the distance derived from the perception and understanding of cultural

and business differences between home markets and foreign markets, such as legal, political, and economic environment, business practices, languages, industry structure, and so on). Obviously, this definition is considered as the combination of cultural distance and business distance, and emphasizes both 'psychic' and 'distance' to analyse how international retailers' performance is influenced by psychic distance and other relevant factors from a holistic view.

It can be argued that the ideal markets for internationalizing retailers should be those with close geographical proximity, close cultural associations, and similar economic conditions to domestic markets. Where, however, the retail structure undergoes a modernization process (when the familiar and close markets are saturated), retailers tend to assess their competencies and expand into international markets with greater cultural differences and geographical distance because they are attracted by the economic and commercial opportunities in these country markets (Alexander, 1997).

The opening up by WTO membership of a large and growing market such as China attracts experienced foreign retailers to enter and to expand. As mentioned in Chapter 2, some international retail giants have set their global purchase centres in China. Cultural differences in the host country add complexity to the environment of foreign market operation (Lindsay *et al.*, 2003). Therefore, to consider psychic distance when analysing factors influencing the expansion process of foreign retailers in China is essential.

This study has chosen Evan *et al.*'s (2000) definition of psychic distance, because the aim of their application of psychic distance, which is to explain variations in the performance of international retail operations, is similar to the aim of this study, which is to explain the factors influencing the expansion process of foreign retailers. Psychic distance here is applied specifically to the distance between foreign retailers' home countries and China. In order to identify and explain how perceived cultural and business differences influence the expansion process of foreign retailers in China, and how foreign retail firms' culture and management styles respond to psychic distance in their expansion process, proposition 6 is set up as follows:

- **Proposition 6**

Psychic distance is an important factor that influences the expansion process of foreign retailers in China, particularly the influence of the firms' culture and their management styles as their response to psychic distance.

3.4.4 Location choices

Political and economic issues are important factors for internationalization decisions (Dupuis and Prime, 1995). The decisions regarding the geographical dispersion of firms' international activities are closely connected to the firms' entry mode selection (Eramilli, 1991). Up to 2004, the only entry mode allowed to foreign retailers entering China was JVs. The choice of where an international retailer chose to open its first store was influenced by this particular entry mode and the operational approach was significantly influenced by their JV partners. There were also strong political reasons why international retailers were limited as to where they were able to open new stores. For example, there are (unknown) local political reasons why Wal-Mart was not allowed to open its first store in Shanghai as it wished, and finally chose Shenzhen instead (Chaturvedi, 2006). Foreign retailers' further expansion process can also be influenced by such political factors.

Retailing is closely tied to both economic and cultural geography. Economic geography influences retailing within individual countries as well as worldwide; consumers who are geographically adjacent or even in the same country may be in a significantly different economic situation (Sternquist, 1998). This is particularly true in China, where the south and the east coasts are much more economically developed than, for example, the west. Foreign retailers entered China in 1995 by opening their first stores in cities of those areas (Wang, 2006). As stated in Chapter 2, China provided foreign retailers opportunities to first enter the areas in the country with good economic conditions. This enabled foreign retailers to adapt to the Chinese market by operating in the economically developed areas before expanding further afield, once those areas became saturated.

Cultural geography refers to how people live in different regions of the country and the world, while economic geography is related to the distribution of industrialization (Sternquist, 1997). Cultural incompatibility represents a higher risk for service than for multinational corporations because service industries normally have a higher involvement of people (Samiee, 1999). Retailing tends to require a greater ability to respond to local culture in order to be successful. An international retailer needs to adapt to the consumer culture in the host market (Dawson, 2007). The game is the same, but the rules are different (Woodward, 1996). Retailers need to be aware of social-cultural distance when developing their business and usually prefer to develop their businesses in markets that are perceived to be familiar and similar to their domestic market (Treadgold and Davies, 1988). Retailers tend to expand

into geographically proximate markets due to ease of distribution and establishment. The logic is the same for international expansion within one state into geographically proximate regions. For a big nation, geographically close regional markets are more likely have similar cultures (Alexander, 1997).

Since retailing is socio-culturally related, consumers, social conditions, and cultural influence can have great impact on retail firms' expansion. Culture has an important impact on buying and consumption behaviours. Cultural proximity is more important for mass retailers and when consumer markets are different in various countries (Pellegrini, 1991). As a collection of markets, there are differences in regional cultures and consumer preferences in different parts of China, for example, consumers in different areas of China have different tastes (Wang, 2003). These issues raise the need to analyse the influence of social-cultural issues on the expansion process of foreign retailers.

As mentioned in Chapter 2, during the research period big foreign retail firms have started to compete in different regions in China, applying their own location choice strategies. Table 3.2 shows the locational spread of Wal-Mart, Carrefour, Metro, and Tesco in China, organized by the different areas of China by the end of 2005. There are twenty-three provinces, five autonomous regions, four centrally administered municipalities, and two special administrative regions in China (EstudyChinese.com, 2008). China is geographically divided into five major areas: East China, South China, Middle China, West China (including Southwest China and Northwest China), and North China (including Northeast China and North China). Different parts of China have different development levels with significant gaps between rich and poor. Appendix 6 shows China's administrative divisions and Appendix 7 lists the geographical and provincial areas of China.

From Table 3.2, it can be seen that the foreign retail giants focused mainly on the areas where their first stores and headquarters are located, and then expanded gradually across the country. For example, Metro and Tesco have more stores in East China and Carrefour has more stores in North China than anywhere else in the country. The exception shown in Table 3.2 is Wal-Mart, which has more stores in North China than elsewhere in the country, though it opened its first stores in the South. North China includes Northeast China and the economically developed municipality cities of Beijing and Tianjin.

There are various factors that influence foreign retailers' decisions on where and when to expand. The important factors include political, economic, and social and cultural issues, which need to be considered

Table 3.2 Location choices of large foreign retailers in China (2005)

Retailer	Country of origin	Format	No. of stores	Locations and number of stores in the location			
Wal-Mart	US	Supermarket	51	South China (16)	East China (3)	Northeast & North China (18)	Northwest & Southwest China (8)
				Guangdong (10)	Jiangsu (1)	Liaoning (5)	Hunan (3)
				Fujian (5)	Shanghai (1)	Jilin (3)	Hubei (2)
				Guangxi (1)	Anhui (1)	Heilongjiang (3)	Jiangxi (1)
						Tianjin (2)	Yunnan (4)
						Beijing (2)	
		Sam's club	3	Guangdong (1)		Shandong (3)	
		Neighbourhood stores	2	Fujian (1)		Beijing (1)	
				Guangdong (2)			
Carrefour	France	Hypermarket	70	South China (12)	East China (17)	North China (24)	West China (12)
				Guangdong (11)	Shanghai (8)	Shandong (3)	Hunan (1)
				Fujian (1)	Jiangsu (4)	Beijing (6)	Hubei (4)
					Zhejiang (3)	Tianjin (5)	Sichuan (4)
		Anhui (2)	Heilongjiang (3)	Heilongjiang (3)	Xinjiang (2)	Shanxi (1)	
						Liaoning (7)	
Metro	Germany	Warehouse department store	27	South China (4)	East China (9)	North China (6)	West China (4)
				Fujian (2)	Shanghai (4)	Liaoning (2)	Hubei (2)
				Guangdong (2)	Jiangsu (3)	Tianjin (1)	Hunan (1)
					Zhejiang (2)	Heilongjiang (1)	Jiangxi (1)
				Hebei (1)	Shandong (1)	Yunnan (1)	Shanxi (1)
Hymall (Tesco)	Taiwan/UK	Hypermarket	39	South China (1)	East China (23)	North China (15)	West China
					Shanghai (14)	Tianjin (4)	Middle China
				Guangdong (1)	Zhejiang (6)	Liaoning (9)	
				Jiangsu (3)	Jilin (2)		

when analysing foreign retailers' expansion process in China. Proposition 7 is set up to identify and explain how and different factors in different locations influence the expansion process of foreign retailers in China.

- **Proposition 7**

Making good regional, city, and store location choices has a significant impact on the expansion process of foreign retailers in China's market. Such choices are influenced by local political, economic, and social and cultural issues.

Conclusion

This chapter reviewed theoretical frameworks, identified the research gap, and set up propositions based on a broad context of international retailing and international business literature. It first reviewed previous literature in international retailing from the 1960s to the 1980s, followed by an analysis of the recent research trends in the field, focusing on the retail internationalization process. A gap in research was then identified at the post-entry stage of the retail internationalization process, particularly in emerging markets such as China. The reason for looking at the post-entry stage is that the focus of the existing literature was mainly on market pre-entry and entry stages and their influential factors. Furthermore, due to lack of meaningful data, the internationalization of retailing in China has been neglected. There have been limited research activities focusing on retailing, distribution sectors, and consumer behaviours in China, especially on an empirical basis (Alexander and Myers, 1999).

In order to have a sound and holistic theoretical approach, three main frameworks involved in the retail internationalization process (Vida and Fairhurst, 1998; Alexander and Myers, 2000; and Evans *et al.*, 2000) were adopted, integrated, and explained as the main theoretical background of this study. Four factor categories were identified based on the integrated framework and specific characteristics of China's market: external environment, internal competencies, psychic distance, and location choices. Based on these four factor categories, seven propositions have been set up. Each proposition was explained based on international retailing and/or international business literature in their specific dimensions.

The study will first identify the factors influencing the expansion process of foreign retailers in China and then examine how and why the factors identified influence this process. It will finally develop a new

model to explain significant factors influencing the expansion process of foreign retailers.

This research is expected to contribute to the current body of knowledge in the retail internationalization process, and further to the general literature on internationalization of firms of an explanatory nature. The aim of explaining the factors influencing the expansion process of foreign retailers at the post-entry stage is to provide a link between the focus of existing literature on retail firms' market pre-entry and entry stages and the potential focus of future research on retail firms' performance in the retail internationalization process. In addition, the study may be useful to encourage further research in analysing factors influencing firms' performance, success, or failure in the international business dimension. Chapter 4 will introduce the methodology of this study.

4

Methodology

Introduction

After identifying research gaps and setting up research propositions in Chapter 3, this chapter will discuss methodology. In order to take a holistic perspective, an explanatory case study approach will be used to achieve the research aim and answer the research questions. The chapter will start by explaining why a case study approach has been chosen and then introduce the multiple-case replication design chosen for this research. Next, it will discuss the selection of cases and set up a case study protocol. Then, data collection methods (triangulation) will be presented, case reports will be designed, and the justification of the research design will be given. Finally, the experience of conducting research in China will be discussed and conclusions will be drawn.

4.1 Case study approach

A case study approach is applied in this study for the following important reasons. First, this study is intended to build theory from an underdeveloped area of research. In-depth case studies are deemed most appropriate for theory building in this area (Eisenhardt, 1989; Strauss and Corbin, 1994; Yin, 1994). The case study method can be used to seek insights (Ghauri *et al.*, 1995), and a case can be used to develop a framework for collecting evidence (Remenyi *et al.*, 1998). Therefore, case studies can significantly contribute to achieving the research aim, which is to explain the factors influencing the expansion process of foreign retailers in China, from an insider perspective through developing a new model based on previous frameworks.

Second, this study responds to the need for case study research in the field of international retailing. There has been increasing recognition of the value of qualitative methodologies, in particular, the in-depth case study method based on qualitative resources (Doherty and Alexander, 2004, 2006; Moore *et al.*, 2004). Hutchinson *et al.* (2005, 2006b) used exploratory case study evidence from British retailers. They analysed the internationalization of small- and medium-sized retailers, by looking at their internationalization motives and facilitating factors. Further qualitative evidence from case study research by Hutchinson *et al.* (2007) also provided qualitative evidence from case studies.

In addition, this study applies case study research to a non-Western market that has been in a transitional phase during the research period. A case study is an important form of research to explain the internationalization of retailing. However, most case study research has been conducted for Western countries. Only a few researchers have studied non-WTO countries, where international retailers may face both unconventional and conventional regulations (Wang, 2003). It is necessary to do case study research on China, a special market where foreign retailers experienced transitional changes between a planned economy and a market economy, as well as between a non-WTO and WTO country (Wang, 2003).

Moreover, this study aims to explain rather than describe phenomena. A case study is therefore appropriate, because it is a useful method for studying processes in firms for explanatory purposes. Further, a case study strategy is preferred when 'how' or 'why' questions are being posed (Yin, 2003), which are the type of research questions raised in this study.

Finally, this study intends to provide a holistic view. Case studies are used in such a way that a few organizations representing similar research problems can be investigated in depth (Zikmund, 2003). Case study research therefore gives the opportunity to gain a holistic view of a process, providing researchers with a greater opportunity to gain a holistic view of a specific research project than other methods (Yin, 2003).

In general, case studies contribute to knowledge in different ways. They help researchers with understanding and explaining complex phenomena. A case study can be used to develop a framework through a collection of evidence or can be applied as a research tactic. A case study can be applied to establish valid and reliable evidence (Remenyi *et al.*, 1998). The objects can be a single organization or several organizations with a particular organizational practice (Post and Andrews, 1982).

4.2 Multiple-case replication design

This study applies multiple holistic cases. The evidence provided by multiple cases is often considered more compelling and the findings are believed to be more robust (Herriott and Firestone, 1983; Yin, 2003). In a multiple-case study, every case needs to serve a specific purpose within the overall scope of the enquiry. In other words, the major insight here is to consider multiple cases as one would think about multiple experiments, that is, to follow replication logic, and not to set up a sampling logic followed by multiple respondents in a survey (Yin, 1994, 2003).

The case selection in this study aims to produce similar results, in other words, a literal replication is expected. In order to follow the replication logic in a multiple-case study, each case must be carefully selected. The replication logic is similar to the method used in multiple experiments (Hersen and Barlow, 1976). To confirm important findings from a single case, the research strategy is to replicate these findings by conducting a second, third, and even more case studies.

The rationale for a multiple-case study depends on one's understanding of literal and theoretical replications. Because the logic of undertaking a multiple-case study is similar to that of conducting experiments, the selection of cases is vital. Each case should either generate similar results to achieve a literal replication or contrasting results for explainable reasons to achieve a theoretical replication. This study adopts the first approach to get a literal replication. If all the cases turn out as predicted, in the aggregate, these cases will provide compelling supports for the initial set of propositions (Yin, 2003).

A vital step is the development of a rich theoretical framework, which needs to state the conditions under which a particular phenomenon is possibly to be found or the conditions when it is not likely to be found. The initial step in designing a case study research must consist of theory development and then it should proceed to the case selection (Yin, 2003). The multiple-case study replication approach applied in this study is shown in Figure 4.1.

4.3 Selection of cases

This research applies multiple-case design. Selecting the cases requires prior knowledge of the outcomes, focusing on how and why the exemplary outcomes might have occurred with hopes of direct replications of the same conditions across cases (Yin, 2003). The author accumulated the prior knowledge of information on China's retail sector and foreign

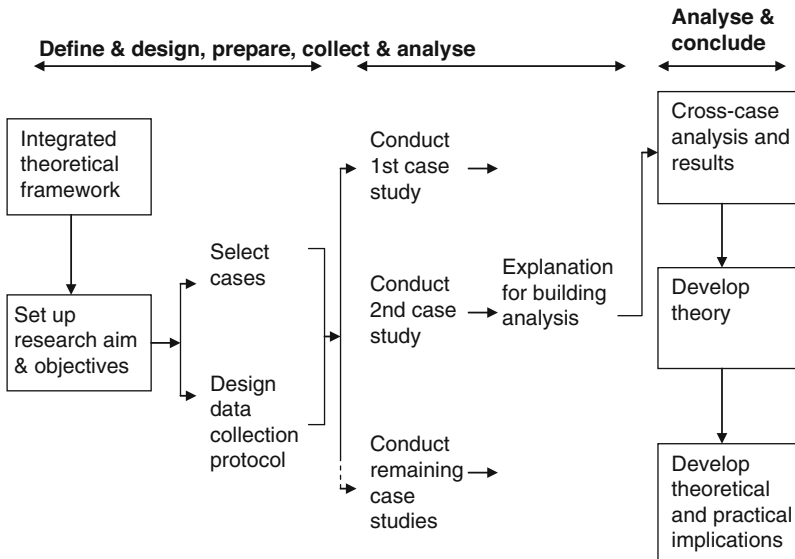


Figure 4.1 Multiple-case study design

Source: adapted from Yin (2003).

retailers' activities in China from her previous academic studies. This helps to judge the potential exemplary outcomes with hopes of direct replications from case to case.

One dimension of generalization involves the application of in-depth studies on the basis of thorough investigations and analysis to identify certain phenomena (Gummesson, 2000). In a specific study, the number of cases needed is determined by saturation, that is, since the research will show the diminishing marginal contribution of each additional case, it will not need to continue with further cases when the additional case's marginal utility becomes nearly zero (Glaser and Strauss, 1967). There are obviously costs attached to conducting case studies, at least in terms of time. The well-known economic principle of efficiency would demand limiting the number of cases to where the marginal benefit equals the marginal cost.

This study has chosen five cases determined by saturation of marginal contribution. Deep analysis will be conducted on each case. The selection of the five case studies is based on the following rationale:

- Since this research is on controversial topics, anonymity helps to protect the real cases and their real participants. In order to identify the

cases accurately and to achieve a higher reliability, the anonymity of the individuals is sought and the cases are disclosed (Yin, 2003). The cases chosen for this study are: Case A: Wal-Mart (American), Case B: Carrefour (French), Case C: Metro (German), Case D: Tesco (British), and Case E: Heiwado (Japanese). In addition, some senior managers from China Chain Store and Franchise Association (CCFA, referred to as Company X in this study) and Fujian Jiujiuwang, which is a large supply company for most of the retail giants, were also chosen to be interviewed.

- The selection followed a replication, not a sampling logic, which means that all the five cases were chosen because they were expected to have the same outcomes beforehand. Then, the case studies and the following evaluation predicted that similar processes will be found to explain these outcomes, in other words, direct replications will take place. If in fact such replications are found for several cases, one can have more confidence in the overall results (Yin, 2003).
- The case studies involve major modern foreign retail formats that have been transferred to China. There are six major formats of foreign retailers transferred into China (Goldman, 2001): supermarkets, hypermarkets, speciality stores, department stores, wholesale-clubs, and shopping centres. Case studies chosen in this research involve the four most important of these formats: supermarket (Wal-Mart), hypermarket (Carrefour), wholesale-club (Metro), which are mainly adopted by European and North American retailers, and department store (Heiwado), which is mainly adopted by Asian retailers (Wang, 2003). In addition, the chosen cases include the four leading foreign retail giants in China: Wal-Mart, Carrefour, Metro, and Tesco (Wang *et al.*, 2007). They are also very large retail organizations by internationalization of sales worldwide (see Table 2.6 and Table 2.7 in Chapter 2). On the other hand, Heiwado had difficulties in its expansion in China. Similar positive outcomes are expected from these chosen cases. In order to ensure that this multiple-case study has sound reliability, a case study protocol has been used.

4.4 The case study protocol

It is essential for a multiple-case study to have a case study protocol. It will guide the researcher in collecting data for each of the cases and increase the reliability of the study. In addition, the case study protocol

Table 4.1 Case study protocol

<p>1. Introduction to the case study and purpose of protocol</p> <p>1.1 Theoretical framework for case study (integrated framework)</p> <p>1.2 Propositions and research questions</p> <p>1.3 Role of protocol in guiding researcher</p> <p>2. Data collection procedures</p> <p>2.1 Name of firms to be contacted and contact persons</p> <p>2.2 Data collection plan (time period and each interview length)</p> <p>2.3 Preparation prior to interview (documents to be reviewed)</p> <p>3. Case study questions</p> <p>The factors that influence the firm's expansion process in China</p> <p>Level 1: Questions to be asked in specific interviews</p> <p>A. Open questions: What are the main factors that influence the retail firm's (each specific case) expansion process in China? How do these factors influence the firm's expansion process in China?</p> <p>B. Open questions: Are any other relevant factors also influential and important for the firm's expansion process in China?</p> <p>C. Probing questions: Point out any factor that is not mentioned in the open questions A and B?</p> <p>Level 2: Questions to be asked for the individual case</p> <p>Case A/C: Why does the firm show slow expansion process in China and how is this attained?</p> <p>Case B/D: Why does the firm show rapid expansion process in China and how is this attained?</p> <p>Case E: Why does the firm show no expansion process in China and how is this attained?</p> <p>4. Outline of the individual case study report</p> <p>4.1 Brief background of the case</p> <p>4.2 Expansion process</p> <p>4.3 Factors influencing the expansion process of the firms</p> <p>4.4 Other issues</p>	<hr/>
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helps to maintain focus on the subject of the case study (Yin, 2003). The case study protocol is shown in Table 4.1.

The actual questions posed to the interviewees at level 1 are different to the questions posed at level 2. The questions designed at level 2 are based on the documents reviewed in the data collection procedures such as secondary sources. The individual case study reports will follow the outline given under Point 4 of the case study protocol shown in Table 4.1.

4.5 Data collection – triangulation

A major strength of data collection in case studies is the opportunity to apply many different sources of evidence, which far exceeds the capabilities of other research strategies such as experiments, surveys, or histories, which are limited to measurement or verbal information or 'dead' facts only (Yin, 2003). Case studies can include both qualitative and quantitative evidence (Strauss and Corbin, 1990). In order to get a deeper understanding of the structure of an organization, it is important to use various methods for data collection (Burgess, 1982, 1984; Geer *et al.*, 2004). The more widely used terminology in the literature referring to these data collection methods is 'triangulation', a term that has been developed by Denzin (1970). Researchers have taken the term to mean more than one method of investigation and therefore more than one type and source of data (Bryman, 1988). Every data collection and analysis technique has some weakness. Therefore, using different methods can offset these weaknesses (Lancaster, 2005). Triangulation can give more accurate and insightful findings than using one method of data collection and analysis (Brannen, 1992).

Triangulation refers to combining several qualitative methods and combining qualitative and quantitative methods (Flick, 2006). One of the outcomes of this combination of approaches may indicate that qualitative and quantitative results converge, and therefore mutually validate and confirm the same conclusions (Kelle and Erzberger, 2004; Flick, 2006). This study will apply triangulation in both ways. Interview data are to be triangulated with document data and data from questionnaires. Through triangulation, data sources can complement each other and there is more opportunity to check the information about various sources providing the same or different results (Velde *et al.*, 2004). Triangulation of qualitative and quantitative research can be applied in each single case in which the same people are interviewed and fill in a questionnaire (Flick, 2006). This study takes this approach, so that the answers in both interviews and questionnaires can be compared with each other and referred to each other in the analysis.

By applying triangulation, based on several different sources of information, and following a corroboratory mode, any finding or conclusion in a case study is likely to be much more convincing and accurate (Mason, 2002; Yin, 2003). Triangulation can improve verification and validation of the research through different methods to collect and analyse data (Campbell and Fiske, 1959; Ghauri *et al.*, 1995; Burns, 2000). A form of triangulation with different sources can be used to secure

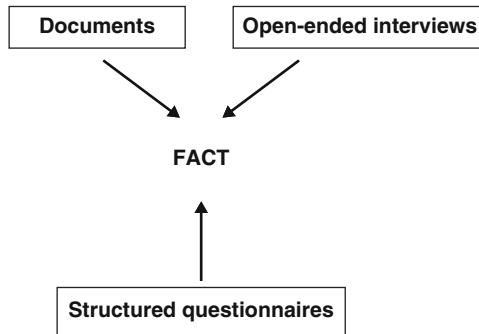


Figure 4.2 Convergence of evidence applied in this study
Source: COSMOS (1983).

an in-depth understanding of the phenomenon (Ghauri *et al.*, 1995; Denzin and Lincoln, 2000).

This study applied triangulation to justify whether the factors that influence the expansion process of foreign retailers in China identified by one method are the same factors identified by the other methods. The idea is to provide a more complete, holistic, and contextual portrait of the object under study than a single method and to get an entire picture of reality (Ghauri *et al.*, 1995). The convergence of evidence in this study is shown in Figure 4.2.

One can collect both qualitative and quantitative data through qualitative methods. The data are called quantitative when they are analysed and expressed statistically (Ghauri *et al.*, 1995). In this study, besides interviews other qualitative and quantitative data were collected, including document data and questionnaires. Questionnaires here are regarded as quantitative data collected through a qualitative method, because the questionnaires were filled in face-to-face just after every interview and the interviewee explained to the researcher the reasons why certain answers were chosen during this process. Using interviews, questionnaires, and document data has allowed all data to justify each other mutually and jointly to help to answer research questions.

4.5.1 Conducting interviews

Use of interviews is an important technique for data collection and is one of the most effective ways to collect data in the social sciences (Easterby *et al.*, 2002). They are an essential part of case study evidence (Remenyi *et al.*, 1998). In case studies, interviews should appear to be guided conversations rather than structured queries (Yin, 2003). That

is, even though one will be pursuing a consistent line of enquiry in a case study interview, the actual stream of questions is likely to be fluid rather than rigid (Rubin and Rubin, 1995). This study applied open-ended interviews. The unstructured approach trades generalizability for contextual understanding through researchers' focus on a particular phenomenon (Maxwell, 1986). This suits the last objective of this study, that is, to generalize cross-case conclusions of a suitable framework to explain the factors that influence the expansion process of foreign retailers.

In case study research, not only should the researcher be able to ask relevant and probing questions, she or he should also be able to listen and interpret the answers given. The researcher needs to be very observant and a very good listener. The researcher should be able to read between the lines and understand not only what is said but also what is meant; indeed, the latter is even more important (Ghauri *et al.*, 1995). Having grown up in China, graduated and then worked there for a number of years in the sales and marketing field, the author possesses the ability to understand the meaning behind the words of different Chinese managers. After further higher education in the UK and living in the UK for nearly a decade, the author is also able to interpret the meaning behind the words of English-speaking managers properly. Therefore, face-to-face in-depth interviews are used in this case study research.

In-depth interviews can also be called non-directive interviews, that is, there is no pre-determined list of questions to work through although the interviewer needs to have a clear idea of the aspects she or he would like to achieve. The interviewees are given opportunities to talk freely about issues, behaviours, or beliefs regarding the topic area. Therefore, this type of interaction is also called an informant interview because it is the interviewee's perceptions that guide the conduct of the interview (Saunders *et al.*, 2003). However, although the unstructured interview might appear to be without a structure, the researcher has to set up a framework within which interviews will be conducted. Consequently, the unstructured interview is flexible, but it is also controlled (Burgess, 1994). Palmer (1928) argues that in unstructured interviews, the researcher has to keep the informants on topic in relationship to the research problem and simultaneously encourage the interviewees to discuss these experiences and concepts naturally and freely.

This study investigates a particular phenomenon in a specific context. Therefore, unstructured but controlled open question interviews are applied. The top managers who know the decision-making process in retail firms were chosen for interviews and encouraged to discuss freely

their experience and evaluations, which proved appropriate for China (Adler *et al.*, 1989).

In the interview, the researcher's own line of enquiry was followed, which was reflected in the case study protocol and the actual questions were asked in an unbiased manner. For example, sometimes, a 'why' question can be asked by 'how' (Yin, 2003). Therefore, most common case study interviews have an open-ended nature, in which key respondents can be asked for the facts and their opinions about a matter. In some circumstances, the respondent can be asked to propose his or her own insights into certain occurrences and such propositions may be used as the basis for further enquiry (Yin, 1994). In particular, the respondent can also suggest other persons to interview as well as other sources of evidence (Yin, 2003). In fact, some interviewees were introduced to the researcher by other interviewees in this study. The more a respondent assists in this way, the more his or her role can be considered as an 'informant' rather than a respondent (Yin, 2003). Verbal consents have been obtained before all the interviews. The whole content of interviews was about the research topics.

Using a case study approach allows the researcher to focus on a holistic and intensive description and characterization of a single phenomenon (Merriam, 1988). The researcher also kept her own diary during the whole fieldwork process in order to further understand under which circumstances every interview was conducted in order to ensure that the interviews can be analysed more accurately.

There are three options for recording the interviews. One is tape recording the actual interview; another is taking notes during the interview and writing a fuller report later; and a third is making notes on the interview after it has terminated and then writing it up (Whyte, 1994).

Using a tape recorder is expensive and formal. Although expense is not necessarily a problem, the interviewer will have to deal with the additional formality in the situation provided by the recording equipment. The main problem is that even though they have been told that the interviewer will write up the interview later and not at the same time when recording, the informants are very possibly going to talk more officially (for the record) with the machine there than without it. The introduction of the machine could therefore place a serious obstacle to the interviewee's efforts to become comfortable with the situation (Whyte, 1994). Yin (1994) suggests that the use of tape recorders is a common problem. Whether to use such devices is partly a matter of personal preference. Certainly, the tapes could provide a more accurate rendition of any interviews compared with other methods. However, a

tape recorder should not be applied 'when an interviewee refuses permission or appears uncomfortable in its presence' (Yin, 1994: 86).

Note taking as the interview progresses can have the advantage of providing a fuller and more accurate record than could possibly be recaptured by memory. However, this advantage must be balanced against two main disadvantages. Similarly to tape recording, note taking can add to the formality of the interview situation and may inhibit the interviewees. Apart from the effect on the interviewees, more importantly, taking notes also affects the interviewer. An interviewer who takes notes cannot give full attention to the respondent, and the physical movements, gestures, and facial expressions cannot be found in the words themselves, and some of these fleeting body movements would be missed while the notes are being taken (Whyte, 1994).

In addition, a successful interviewer should not be passive; she or he must reflect on what is being said all the time during the interviews and ask herself or himself what each statement means and how the informant can best be encouraged to clarify a certain point or give more details on an item only hinted at. She or he must be ready at the conclusion of each statement of the interviewee to raise a question or make a statement to develop the account further on the items most appropriate for the interview. An interviewer who is busy taking notes will not be able to be as alert as the interviewer who is paying full attention to the informant. During the note taking, the interviewer is always a little behind the informant and this is likely to interfere with the flow of the interview. For example, when the informant has just concluded a statement, further discussion should be followed up immediately; instead, the interviewer who is taking notes needs a few more seconds to finish writing down what the interviewee has just said; after the interviewer has rushed the note taking to a conclusion, she or he needs a few seconds more to make a good comment to stimulate further discussion. Such kinds of delays will probably embarrass the interviewer and make him or her hurry their own statements, resulting in a deterioration of the quality of data (Whyte, 1994).

In order to avoid the above disadvantages, this study applied note taking on the interviews after the interviews had ended and then writing it up. This method is chosen based on careful considerations. First, the researcher considered the disadvantages with a tape recorded interview and note taking during the interview mentioned above. Chinese people can become very anxious in almost any situation when their speaking is recorded word for word. In organizations, there are always official answers prepared in advance to certain questions when being asked

seriously. Therefore, Chinese people, particularly top managers who are able to provide confidential information, would not choose to have their words recorded or even written down, otherwise, they would just provide common information or even refuse to be interviewed. The particular culture made audio taping and face-to-face note taking less effective in this research. Second, in Chinese culture, it is very important to understand the meanings behind the words in a conversation particularly in conversations with top level people. It is crucial to interpret what was said immediately, and make comments or ask more details about the issues mentioned. Thus, in order to achieve effectiveness and efficiency of the interviews, tape recording was not applied and notes were not taken when the interviews were in progress.

Whyte (1994) argues that even a small amount of practice could significantly increase the ability of most interviewers to reconstruct what has been said. This phenomenon occurred in this study. In the later interviews, more content could be written down compared to the first two or three interviews. In order to compensate the drawbacks of making notes after the interviews have terminated, an immediate transcript was made just after every interview so that a fresh memory of the conversations was maximally kept in the interviewer's mind in order to make the data more accurate (Whyte, 1994).

Twelve interviews were conducted with top managers in foreign retail firms and in the Chinese retail sector: US Wal-Mart (3), French Carrefour (1), German Metro (3), Japanese Heiwado (1), UK Tesco (1), China Chain Store and Franchise Association (2), and Fujian Jiujiuwang (1). They were all on a face-to-face basis with a duration of one to two hours. The only exception was a telephone interview with Carrefour. The top managers interviewed were all at a regional or national level of management in China.

The interview question design was based on the propositions set up in Chapter 3 and the case study protocol mentioned in section 4.4. At the beginning of every interview, the open question 'What are the main factors that influence the firm's expansion process in China?' was given to the interviewees to answer freely. A good balance of talking and listening was achieved during all the interviews (Mason, 2002). Open and probing questions based on objectives (objectives 1 and 2) that were achievable from the interviews with corresponding propositions are organized in Table 4.2.

All the interviews were conducted in the native language of the interviewees (Chinese or English) as the researcher is a native Chinese speaker and proficient in English, so that misunderstanding due to translation

Table 4.2 Guiding interview questions by objectives and propositions

Objective 1: To identify the factors that influence the expansion process of foreign retailers in China.

Objective 2: To examine how and why the factors identified influence the expansion process of foreign retailers in China.

Proposition 1

The deregulation and opening of the market, in particular, China's entry into the WTO, has had a significant influence on the expansion process of foreign retailers in China's market.

Proposition 2

Central government policies are important factors that influence the expansion process of foreign retailers in China's market.

Proposition 3

Local government policies are important factors that influence the expansion process of foreign retailers in China's market. These mainly involve local government taxation, approval for opening new stores, and other support from the local government.

Proposition 4

Firms' characteristics are important factors that influence the expansion process of foreign retailers in China, especially firms' resource commitment, differential advantages, and international experience.

Proposition 5

Decision-makers' characteristics are important factors that influence the expansion process of foreign retailers in China, including decision-makers' perceptions and attitudes, work experience, leadership delegation (empowerment to Chinese managers), and educational level.

Proposition 6

Psychic distance is an important factor that influences the expansion process of foreign retailers in China, particularly the influence of the firms' culture and management styles as their response to psychic distance.

Proposition 7

Making good regional, city and store location choices has a significant impact on the expansion process of foreign retailers in China's market. Such choices are influenced by local political, economic, social, and cultural issues.

Open questions

What are the main factors that influence the retail firm's (each specific case) expansion process in China? How do these factors influence the firm's expansion process in China? Are any other relevant factors also influential and important for the firm's expansion process in China?

(continued)

Table 4.2 Continued

Probing questions

1. How did China's entry into WTO play an important role in the firm's expansion process?
2. How do China's central government policies influence the company's expansion process?
3. How do local government policies influence the firm's expansion process in China?
4. How do decision-makers' characteristics influence the firm's expansion process in China? (regarding decision-makers' perceptions and attitudes, work experience, leadership delegation, and educational level).
5. How do the firm's characteristics influence its expansion process in China? (regarding resource commitments, differential advantages, and international experience).
6. How does psychic distance influence the firm's expansion process in China?
7. How do economic, political, social, and cultural factors play important roles in the firm's expansion process in China?

could generally be avoided. In order to verify the accuracy of interview data, the written up interview reports were sent to interviewees for them to check. Feedback was provided when possible and considered.

During the interview process the researcher tried to preserve the interview in its original form (the research topics), focusing on the conversation, interpreting what was behind the words, and raising questions when appropriate. Open questions allowed interviewees to feel free to talk about how the important factors influence their firms' expansion process in China. Open questions kept being asked when the factors in the propositions were not mentioned by the managers. The probing questions were generally asked in the same order as the propositions in order to make a smooth transcription and analysis after the interview. The case selecting process ended with saturation and similarities of data emerging.

4.5.2 Moving beyond interviews

A case study approach allows the researcher to make use of a mix of techniques (Spink, 2004). The use of multiple methods helps to check for controversial results such as when what an interviewee says does not seem to fit with the other data collected through other methods (Yin, 1994). Therefore, questionnaires and document data were collected in this study.

There are several advantages in moving beyond interviews. First, researchers are confronted with different opinions expressed by different

people during the study (Geer *et al.*, 2004). Therefore, balancing data with other sources gives researchers the opportunity to see the different sides of the issue under investigation. Second, well-grounded interpretations can be built up through applying multiple methods during data collection. Third, by studying a pattern via a combination of interviews and documents, an understanding of shared values and meanings of the investigated organizations can be gained. Finally, a range of methods helps to study changes over time, for example, documents written years ago allow us to check the records and make comparisons with the information attained from interviews about past events (Geer *et al.*, 2004). All of these advantages were gained in this study by collecting questionnaires and document data.

4.5.3 Questionnaires in case studies

Completing one-to-one supervision questionnaires just after every interview is an opportunity often used in the context of studies where face-to-face interviewing is the major method of data collection (Bourque and Fielder, 2003). A questionnaire relevant to interview questions was designed and filled in when possible at the end of each interview for the purpose of triangulation. The aim was to support and justify the data collected from interviews. In the one-to-one situation, the researcher was available to answer any questions that the informant had concerning the questionnaire and clarify the relevant concept when necessary. Therefore, the questionnaires provided in-depth data on the answerability of the questions (Bourque and Fielder, 2003). The questionnaires helped the interviewer to remember and double check the interviews and to keep the content fixed during the writing up process. Questionnaires are particularly suited to Chinese culture because many people prefer to have some guidance when they answer questions. In addition, some questions that were not fully answered in some interviews were answered or explained in the questionnaire.

An interviewer-administered survey is more accurate and gets more returns than a postal self-completion survey, and face-to-face interviewing is essential where the information required is complex and highly sensitive (Burns, 2000). Since questionnaires are based on interviews in this study, most of the questions are sensitive and some are relatively complex, and explanations as to why certain answers were given by informants became necessary. All the interviewees who answered the questionnaire explained why they chose certain answers, which double justified the information given in the interview conversations (Bryman, 1992). Thus face-to-face completion of questionnaires increased reliability and validity of the data. The questionnaire is reproduced in Appendix 4.

With the purpose of ensuring consistency between case study analysis, interview analysis, and questionnaire surveys, the same definitions and measures of managerial action and capabilities were used for both methods (Cheng and Bennett, 2006). Since the contents of questionnaires have close connections to the contents of the interviews, verbal consents for questionnaires were obtained before the interviews. Most of questionnaires were completed by the interviewees (nine out of twelve).

4.5.4 Document data

Stewart and Kamins (1993) argue that if one uses secondary data, the researcher will have an advantage compared to researchers who only use primary data, because secondary data already existing can be re-evaluated before use. In this study, document data were collected as secondary qualitative data, aiming to confirm interview data as much as possible.

Documentary information is likely to be relevant for every case study topic except for studies of preliterate societies. Document data are stable and can be reviewed repeatedly; they are unobtrusive and not created as a result of the case study; the documentation always contains exact names, references, and details of an event; and they also have a broad coverage, over a long span of time and many events. For case studies, the most important use of collecting document data is to corroborate and augment evidence from other sources (Yin, 2003).

Kervin (1992) argues that secondary data can be raw data, where there has been little if any processing, or it can be compiled data, which has had some selection processing or summarizing. In business and management research such data are mostly used in case study and survey-type research. The data can include documentary data, for example, written materials such as reports of committees, books, journals and newspapers; multiple source data, for example, Financial Times country reports, government publications, journals and industry statistics; and survey data, such as census surveys, continuous and regular surveys, and ad hoc surveys (Ghauri *et al.*, 1995). Written documents can also provide qualitative data such as managers' espoused reasons for decisions (Saunders *et al.*, 2003). These documents can provide specific details and support verbal accounts of informants (Remenyi *et al.*, 1998). Document data were collected in this study in two main ways with different purposes.

First, archival records presented by written document data such as firms' public records, relevant journals, magazine articles, and newspapers were collected before as well as after the primary data collection. Document data in this study use public materials that are relevant to the external environment and firms' internal environment, including

central and local government reports, particularly government policies and statistics regarding WTO, FDI, and China's retail industry. Academic journals as well as organizational journals, textbooks, and other students' theses are also referred to when appropriate. Finally, companies' internal documents or journals were collected when possible, therefore more detailed information was adopted when necessary regarding companies' management styles and expansion process.

The document data mentioned above mainly derive from written materials and multiple source data and serve to provide the background for the whole research and underpin each case, focusing on brief company profiles, the initial expansion activities in the international market, and their expansion process, including future expansion plans in China. The documentary data, mostly quoted in the background of the research and case studies, are summarized in Table 4.3.

Second, important document data were collected by systematic search to triangulate with interview data. Systematic search for relevant documents is very important in any data collection plan. This research chose newspapers to collect document data. Two important newspapers were chosen: the *China Daily* and *China Business Weekly*. The reason why the *China Daily* was chosen is because it is the only national English language newspaper in China, established in 1981; it has an average daily circulation of 200,000, one-third of which is in more than 150 foreign

Table 4.3 Important secondary data in this study

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- Central and local government studies and reports, census reports, state budgets, rules on international trade regarding imports and exports, and policies on FDI
 - Studies and reports of institutions and departments such as the Central Bureau of Statistics, universities, marketing and other research institutes, chambers of commerce, and foreign missions such as embassies, trade centres, and consulates
 - Academic as well as organizational journals and newsletters relevant to the research area; and journals on statistics published by different branch organizations regarding their own industry, market shares, revenues, and imports and exports
 - Historical studies regarding the development of a particular discipline or topic area
 - Textbooks and other published materials directly or indirectly related to the research area
 - Theses and reports written by other students in the researcher's own university or other schools or universities
-

Adapted from Ghauri *et al.* (1995: 55).

countries abroad (Chinadaily.com.cn, 2007a). China Business Weekly, also run by China Daily, is released every Monday, with contents covering the realities of China's economic development, related policies, the investment environment, trade relations, stock market, and the latest developments in economic legislation. Therefore, from China Business Weekly, one can get the most recent information regarding how China's economic environment has influenced businesses in different sectors.

In addition, the characteristics of document data from these two newspapers had similar features to the data obtained from interviews, because the style of all of the articles used quotations from top managers in the foreign retail firms, top economists from leading universities and research bodies, or top leaders from governments.

The document data from the China Daily and China Business Weekly were collected focusing on time periods when significant changes occurred in the Chinese economy and China's retail sector. Because China joined the WTO in November 2001, the document data were collected between 1 November 2001 and 31 January 2002, giving a quarter of a year to identify the changes that occurred regarding the factors that influenced the expansion process of foreign retailers, referring to the chosen five case studies. For similar reasons, document data were also collected between 1 November 2004 and 31 January 2005, giving another quarter of a year to identify the changes that occurred regarding the factors that influenced the expansion process of foreign retailers in China, after all the restrictions were removed for foreign retailers. Further, in order to support and identify the interview data to achieve effective triangulation, document data were also collected for the quarter from 1 October 2005 to 31 December 2005. This helped to identify the factors that had impacts on the expansion process of chosen foreign retailers about a year after all the restrictions had been removed in China's retail sector.

All the document data collection is based on the awareness that every document was written for some specific purpose or some particular audience other than those of the case study. Being aware that the documentary evidence reflects communication among other parties who attempt to achieve some other objectives can help prevent the researcher being misled by the collected documentary evidence and more likely to interpret the contents of this evidence correctly (Yin, 2003).

4.6 Summary of data collection methods

Five cases were chosen based on their potential to answer the research questions and the type of data they have available. Multiple sources of

Table 4.4 Summary of data collection

Selected Cases	Research Period	Interviews	Questionnaires	Document collections	Site visits
Case A: Wal-Mart (USA)	From October to December 2005	3 (09/11/05) (17/11/05) (13/12/05)	3 (09/11/05) (17/11/05) (13/12/05)	China Daily and China Business Weekly; as well as: company website, company report and documents, website articles, other newspapers, press interviews, academic books and articles	Beijing Changsha Shenyang
Case B: Carrefour (France)	From October to December 2005	1 (10/11/05)	1 (10/11/05)	China Daily and China Business Weekly; as well as: company website, company report and documents, website articles, newspapers, press interviews, academic books and articles	Beijing Chongqing Shenyang
Case C: Metro (Germany)	From October to December 2005	3 (03/11/05) (04/11/05) (16/11/05)	3 (03/11/05) (04/11/05) (16/11/05)	China Daily and China Business Weekly; as well as: company website, company report and documents, website articles, newspapers, press interviews, academic books and articles	Changsha Shanghai Wuhan
Case D: Tesco (UK)	From October to December 2005	1 (28/12/05)	–	China Daily and China Business Weekly; as well as: company website, company report and documents, website articles, newspapers, press interviews, academic books and articles	Shanghai
Case E: Heiwado (Japanese)	From October to December 2005	1 (18/11/05)	1 (18/11/05)	Company website, company report and documents, website articles, newspapers, press interviews, academic books and articles	Changsha
All cases (CCFA and Fujian Jiujiuwang Food Co. Ltd.)	From October to December 2005	3 (08/11/05) (15/11/05)	1 (08/11/05)		Beijing Changsha
Total		12	9		

data and collection methods were applied (Eisenhardt, 1989; Yin, 2003): guided open-ended interviews triangulated with face-to-face supervision questionnaires and document data. Table 4.4 summarizes the data collection methods in this study.

Table 4.4 summarizes the data collection methods and contents of data collected for each case. The category 'all cases' refers to the interviews conducted with CCFA and Fujian Jiujiuwang (the supply company), which were able to provide information based on the entire Chinese retail sector and to give an overview and comments on the expansion activities of retail firms, including the five chosen foreign retailers.

4.7 Justifications for research design

This research design is justified by four dimensions: construct validity, internal validity, external validity, and reliability.

4.7.1 Construct validity

In order to avoid subjective judgements in data collection, multiple sources of evidence are applied in this study to achieve construct validity. Data were collected from interviews, face-to-face supervision questionnaires, and documents to conduct data triangulation. Triangulation can be very useful when different facets of the phenomenon are investigated by the most appropriate combination of methods and sources (Yeung, 1995). In addition, due to an imbalance in terms of different types of data available for each individual case, it is very constructive to apply triangulation. For instance, there were more external document data available to Case B than interview availability; and for Case E, the interview was much more in-depth, but there was not much external documentation available. The combination of interviews, questionnaires, and document data improved the validity of the findings.

4.7.2 Internal validity

Since this study is an explanatory one, internal validity has to be given attention. In this study, document data were collected as a secondary source, aiming to gain more evidence to justify the data collected from the interviews; and face-to-face supervised questionnaires were collected at the end of each interview when possible, aiming to provide internal validity of the interview data. Both questionnaires and document data were collected to triangulate with the interview data to achieve a high level of internal validity. In addition, this study applied an analytic

tactic and explanation building is used in data analysis for each case (Chapter 5) before conducting cross-case analysis and presenting results (Chapter 6). This helped to deal with the overall problem of making inferences and further the specific problem of internal validity.

4.7.3 External validity

External validity of this study is established by applying replication logic in the multiple-case studies design. The theory is to be established by replicating the findings in all the five cases chosen. The results therefore can be accepted due to providing a strong support.

4.7.4 Reliability

The reliability of this study is achieved by providing a case study database, so that future researchers can conduct research using the same procedures as those of this study. Every case study project should develop a presentable database so that other investigators can review the evidence directly and a case study database significantly increases the reliability of the entire case study (Yin, 2003).

In this work, case study notes, documents, and tabular materials are assembled as a database. Case study notes are presented mainly as direct citations of the interviews in Chapter 5. Case study documents, with an annotated bibliography, can facilitate storage and retrieval so that later researchers can inspect or share the database (Yin, 2003). In this study, the sources of collected document data are provided when quoting as part of the case study database. The document data were available online when being collected. Finally, tabular materials are presented and their full sources are given. The questionnaire is presented in Appendix 4. All of the above allow for later retrieval.

4.8 The experience of conducting research in China

Ethical and cultural issues specific to conducting research in China are highly significant for this study. With rapid economic growth and social changes in China, qualitative research conducted in China has gone up by 20 per cent to 30 per cent since 2003. However, it is crucial to understand the Chinese social and business culture in order to have success with the qualitative research conducted on Chinese participants (Richardson, 2008). First of all, it can be difficult to conduct qualitative research in China. In most cases, Chinese people over 50 are not used to speaking freely because they are used to following the opinions of their leaders, who value consistency, conformity, and order. Creative

thinking and sharing personal opinions during qualitative research can be difficult. The exchange of views can make older participants uncomfortable (Richardson, 2008). In this research, the participants' ages were between 30 and 55. However, the support among informants crucially contributed to conducting this research. One informant introduced another to the researcher, which helped to establish trust between the informants and the researcher so that the informants could speak candidly.

Second, there were cultural sensitivities when the informants answered the interview questions. For example, Chinese managers did not refer to the foreign retail company they worked in as the first person 'we'. This might not be because they did not accept that they belong to the company. It could be because when they spoke to the Chinese researcher, they preferred to refer to the foreign company with the company's name instead of 'we' in order to show their respect for the Chinese nationality of the researcher. Another reason is that it is rare for two native Chinese people to speak English to each other even when they are together with foreigners. They also often mentioned other foreign retailers as a comparison with the retail firm they worked in.

In addition, '*guanxi*', which influences personal and business relationships in China and was mentioned in the literature review earlier, was also reflected upon during the interviews. The Chinese word '*guanxi*' refers to the use of connections and networks to secure favours in personal or business relationships (Luo and Chen, 1997; Richardson, 2008). There are three major categories: *Jia-ren guanxi*, which refers to relationships among family members and in which the obligation rule is followed; *Shou-ren guanxi*, which refers to relationships between friends, neighbours, colleagues, classmates, and so on and in which reciprocity is expected; and *Sheng-ren guanxi*, which refers to relationships with mere acquaintances or strangers and in which an instrumental rule is followed (Sternquist and Chen, 2006).

Guanxi is important to understand for qualitative researchers and anyone doing business in China. Western business tradition reserves 'business before pleasure'. In China, it is 'pleasure before business'. In practical terms, this means that qualitative researchers and clients socialize and become well acquainted before work is discussed. It is important that this concept is respected and practised with Chinese business people (Richardson, 2008).

Due to not having been in China for a number of years, the researcher at the beginning had difficulties in building up networks in a short time in order to get access to the data. However, she attended the

7th China Retail Conference in Beijing, and some networks were established during the conference based on *Sheng-ren guanxi*; the researcher also got help from friends who introduced top managers in the retail sector in chosen firms to her, based on *Shou-ren guanxi*. More interestingly, being native Chinese and acknowledging the Chinese culture, the researcher quickly established strong trust with *Sheng-ren* (acquaintances or strangers), and these *Sheng-ren* intended to become friends of the researcher and voluntarily introduced their friends who worked in the same field and who could meet the interviewee requirements. In this case, the interviews went well and reliable information was collected during open-ended friendly conversations.

Su and Littlefield (2001) argue that an individual may enter *Jia-ren guanxi* through marriage and *Shou-ren guanxi* through commitment, altruism, and giving face. *Sheng-ren guanxi* exists for example between a researcher and interviewees for a new research project but also exists between a new retailer in a foreign market with its new suppliers and local and central governments.

Cultural influence and networking are crucial issues that need to be considered before data collection for any research in China. Obviously, collecting data in China is different from Western countries because cultural differences lead to different ways to approach Chinese top managers and Western managers who have adopted a Chinese management style. This research provided further evidence that conducting qualitative research in China involves social and cultural issues. It is necessary to consider such issues when preparing to collect future qualitative data in China, when doing further research following this study, or doing other research in a relevant field that involves cultural issues such as consumer behaviour and political issues. Furthermore, while carrying out qualitative research, social and cultural issues might also need to be considered in other markets.

There were several steps that were taken before obtaining the data in this study, which could give insights into the special issues related to conducting research in China for other researchers. First, initial relationships were established with all the interviewees through networking, in other words, all the interviewees expected the interviewer's visit and knew the main contents of the conversation, which helped them to decide to contribute to the study. Second, the researcher made sure that all the interviewees were in top management positions and were able to answer the questions. Also, their gender and position were known before the interviews took place. Third, the same open questions were posed to all of the interviewees and all the probing questions were asked

in the same order when possible and appropriate. Last but not least, all the interviewees tried to choose a quiet or relaxed environment in which to talk to the interviewer, where they would feel more comfortable in telling the truth.

Conclusion

This chapter introduced the methodology of the study. A multiple-case study method was applied and five representative case studies were chosen following replication logic. Interview data were collected, which were then triangulated by face-to-face supervised questionnaires and document data. Cultural influences were considered during the interviews. This study was designed to enhance the validity and reliability of the collected data. A holistic approach was applied in each case. Multiple-data sources through triangulation helped to achieve construct validity. External validity was achieved by replication logic design in multiple-case studies. Internal validity was achieved by applying explanation building to theories. The development of a case study database provided reliability for the study. Chapter 5 will give details on data analysis.

5

Data Analysis

Introduction

Following Chapter 4, in which methodology was introduced, this chapter focuses on multiple-case study data analysis applying explanation building analysis strategy (Derthick, 1972; Yin, 2003). The chapter starts with an introduction to general data analysis strategies and provides an outline of data analysis. The detailed explanation building analysis follows the theoretical propositions set up in the literature review, and emerging themes are identified during the analysis. The chapter finally assesses the quality of the data analysis.

5.1 General analysing strategy

Before an analytic technique is selected, it is useful to have a general analytic strategy. This strategy can help to ensure the evidence is treated fairly, produce robust compelling analytic conclusions, and manage alternative interpretations (Yin, 2003). In case study research, the most preferred data analysis strategy is relying on the theoretical propositions which lead to the case study. In this book, the original propositions shaped the data collection plan and are given priority in the analysis strategy (Yin, 2003).

The data analysis strategy in this study is therefore grounded in theoretical propositions. The propositions help to focus on the relevant data and to organize the whole case study and to define alternative explanations to be examined. In particular, the theoretical propositions, answering the 'how' and 'why' questions, can be very useful in guiding the case study analysis (Yin, 2003). This strategy underlies a specific analytic technique in order to improve both internal and external validity

of the case study research (Yin, 2003). This study applies explanation building analysis technique, which is introduced below. The approach taken here following the approach recommended by Eisenhardt (1989) begins by analysing each case individually, and then moves on to a cross-case analysis.

5.2 Explanation building analysis

Explanation building can help to build a general explanation to fit each of the individual cases (Moore, 1966; Derthick 1972). In most circumstances, explanation building can be conducted in narrative form; however, the better case studies are the ones where the explanations reflect theoretically significant propositions. To explain a phenomenon is to stipulate a presumed set of causal links about it; and these causal links may reflect critical insight into certain theories and lead to future theory building or practical recommendations (Yin, 2003). The propositions set up in this study are based on previous retail internationalization process literature. If the propositions are correct or justified, they can result in a major contribution to retail internationalization theory building.

This chapter will analyse the case studies one by one following each proposition. The analysis of each proposition will be undertaken through all of the five case studies. With the case study evidence being examined, theoretical propositions will be revised and the evidence re-examined from a new perspective. The result is an explanation building process derived from the cross-case analysis (Yin, 2003). An outline of the explanation-building analysis in this study is shown in Table 5.1.

Table 5.1 Outline of data analysis

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1. Make an initial theoretical proposition on factors influencing the expansion process of foreign retailers in China
 2. Compare the findings of an initial case against the proposition
 3. Revise the proposition if needed
 4. Compare other details of the case against the revision
 5. Compare the revision to the facts of the other four cases
 6. Repeat the above process as many times as needed
 7. Conduct the same analysis for other propositions
 8. Write individual case reports (Appendix 5)
 9. Conduct cross-case analysis and present results (Chapter 6)
 10. Develop theoretical and managerial implications (Chapter 7)
-

Source: based on Yin (2003).

In each case, the final goal of data analysis is to identify emerging topics by examining the collected data (Eisenhardt, 1989). In this study, interview data were analysed by an explanation building analysis following the outline of data analysis shown in Table 5.1. Then, the identified factors including emerging themes in the interview data were categorized before cross-case analysis was conducted on the interview, questionnaire, and document data, which is introduced in Chapter 6. Emerging themes were also identified in the cross-case analysis. The definitions involved in the propositions are explained in Chapter 3 before each proposition was set up. The summary of the propositions is shown in Chapter 4 (Table 4.2).

Following the outline of explanation building analysis and based on the initial theoretical propositions, the data analysis went through the following steps: (1) The findings of the initial case were compared to the propositions. (2) The propositions were revised if needed. (3) Other details of the case were compared against the revised propositions, and further revision took place where necessary. (4) Any revised propositions were compared to the facts of the rest of the four cases. (5) This process was repeated as many times as needed until the individual case reports were completed (Yin, 2003). (6) Emerging themes were identified. In an effort to be true to the phenomena under investigation, direct quotes from case informants were applied in the interview data analysis (Coviello *et al.*, 1998).

In general, the interview data analysis was conducted in the following steps: (1) Interviews were transcribed immediately after they took place and this involved identification of salient content. (2) The transcripts were read and reviewed. (3) Explanation building analysis was conducted. (4) Original or revised propositions and identified emerging themes were prepared for the cross-case analysis. The analysis of the interview data generated the following propositions:

5.2.1 Proposition 1

The deregulation and opening of the market, in particular, China's entry into the WTO, have had a significant influence on the expansion process of foreign retailers in China's market.

Proposition 1 illustrated by Case A and Company X

'In particular, after China joined the WTO, all of us (the foreign retail firms) were in the same position because we all benefited equally from the same agreements for our expansion in China' (Senior Manager, Company A, North China).

'The WTO agreement was very important for foreign retailers' expansion, but the degree of importance reduced as time passed because all of us benefited equally from the same policies' (Senior Manager, Company A, Northeast China).

'There are different factors that influence the development of our retailing activities in China. Obviously, the WTO played important roles throughout the foreign retailers' expansion process in China, but it needs to be stressed that China's entry into the WTO agreement was not the essential factor that pushed foreign retailers to further expansion in China. Before China joined the WTO, the country's retail sector had begun to open, and some of the international retail giants started their gradual expansion process into the Chinese market' (Senior Manager A, Company X).

Therefore, proposition 1 is revised as:

Revised proposition 1: China's entry into the WTO is one of the important factors that significantly influenced the expansion process of foreign retailers in China's market; however, this influence reduced as foreign retailers all benefited equally as the market opened up. For the firms that had entered earlier and expanded in China, the WTO agreement had less influence.

Proposition 1 illustrated by Case B

'Like many other firms, the WTO is an important factor that influenced Carrefour's expansion in China's market. But it is not as important for Carrefour as for other firms. This is because Carrefour had already been in China for five years before China joined the WTO' (Senior Manager, Company B, North China).

Proposition 1 illustrated by Case C

'The changes in governmental policies, including China's entry into the WTO increased the speed of our expansion in China. Our China expansion started with China's entry into the WTO. China's retail sector has been growing rapidly since. Without joining the WTO, there wouldn't have been much going on in China's retail sector. Therefore, the WTO played a very important role for our expansion in China. In particular, when different policies were applied in different periods during the WTO process, these policies played significant

roles at every step of our expansion process in China during this period. If China had not joined the WTO, there wouldn't have been any foreign retailers in China to expand' (Senior Manager A, Company C, North China).

'(China's entry into) the WTO is very important to our expansion (in China's market)' (Senior Manager, Company C, Middle China).

Proposition 1 illustrated by Case D

'The WTO agreement is important for our company's expansion. The company entered China in 2004 with an acquisition, which benefited from the removal of restrictions in accordance with China's WTO membership' (Senior Manager, Company D).

Proposition 1 illustrated by Case E

'China's entry into the WTO agreement is very important for our expansion' (Senior Manager, Company E, Middle China).

As shown by the above illustrations, the revised proposition 1 covers the points made by the companies in this study.

5.2.2 Proposition 2

Central government policies are important factors that influence the expansion process of foreign retailers in China's market.

Proposition 2 illustrated by Case A

'Wal-Mart's expansion in China was influenced by different factors at different periods. At the beginning of our entry into China, central government policies were very important. But as time passed, this became less important because all foreign companies had to follow the same central government policies and similar local government policies. There were some variations in the policies of different regions, but local policies cannot violate the central government policies' (Senior Manager, Company A, North China).

'Government policies are very important as well as local policies, but the local policies are relatively more important, because in China local governments are in charge of their own areas and support local businesses' (Senior Manager, Company A, Northeast China).

Following the findings above, proposition 2 should be revised as follows:

Revised proposition 2: Central governmental policies have an important influence on the expansion process of foreign retailers in China's market. Central government policies are more important when they are first announced, but their importance declines after they have been implemented for some time, as all the foreign retail firms are subject to the same policies and are all in the same position regarding their future expansion.

Proposition 2 illustrated by Case B

'Governmental policies are very important to our expansion process. Our company strictly follows central government policies, particularly Article 8' (Manager Company B, North China).

The reason why the importance of governmental policies was explained in this way is mainly because Company B had problems in understanding or implementing central governmental policies and its business had to be readjusted to follow the Chinese central government regulations.

Proposition 2 illustrated by Case C

'In fact, the WTO agreement showed how important government policies are for expansion here. Every foreign retailer must follow central governmental policies, which is the basis for any expansion in China's market by foreign retailers' (Senior Manager A, Company C, North China).

'Central and local governmental policies are similarly important and can be judged as either very important or not important, depending on which kind of policies are announced. This means that if a policy is good for our growth, we adopt it, and it can become important. However, we would prefer not to adopt policies that do not influence us positively unless we have to' (Senior Manager B, Company C, North China).

'Chinese governmental policies are much more open than before. Many foreign retailers have benefited ... Central governmental policies are important for our expansion' (Senior Manager, Company C, Middle China).

According to the above explanation, proposition 2 has been added to as follows:

Revised proposition 2: The importance of the central governmental policies also depends on whether foreign retail firms see these as beneficial, or whether they are forced to adopt them.

Proposition 2 illustrated by Case D

'Central government policies are important for our company's expansion' (Senior Manager, Company D, UK).

Proposition 2 illustrated by Case E

'Our expansion in China is greatly influenced by governmental policies. In particular, the history of political relations between Japan and China during the wars means there are sensitive political issues for Japanese businesses operating in China to deal with today. It is vital for our expansion in China to build good relationships with Chinese firms, and with local and central governments' (Senior Manager, Company E, Middle China).

The influence of the central government policies needs to take into consideration the special case referred to, the particular history of relations between China and Japan. According to this explanation, proposition 2 will be expanded upon by the following, adding to the above revisions:

Revised proposition 2: Further, political factors can influence governmental policies, which will in turn influence the particular retail firm's expansion process in the host country.

5.2.3 Proposition 3

Local government policies are important factors that influence the expansion process of foreign retailers in China's market. These mainly involve local government taxation, approval for opening new stores, and other support from the local government.

Proposition 3 illustrated by Case A

'If we had started off in a highly developed city like Shanghai, we would have had to pay very high local government taxes. Instead, we located our China head office and our first eleven stores in Shenzhen, where local taxes are very low. If these stores had been

located in Shanghai, we would have had to pay very high taxes, which would have been very hard for us to handle at the beginning when we were trying to establish our company in China' (Senior Manager, Company A, North China).

'The third factor that influences our expansion is the procedure for expansion, such as the application and approval process for opening new stores. The success of our expansion very much depends on the support we get from the local government. For example, the reason why we opened many stores in Shenzhen, and not in Guangzhou was because of the strong governmental support we received from the Shenzhen government ... Most of the taxes we paid in China went to Shenzhen. In China, local governments expect a firm to move its head office to the local area, or build up a distribution centre or branches there. Chinese local governments tend to support local businesses that belong to their own region. The attitude of local government officials is vital for our expansion' (Senior Manager, Company A, Middle China).

'Central government policies are very important for our expansion as well as local policies. But local policies are relatively more important than central government policies because in China local governments are in charge of their own areas and support local businesses' (Senior Manager, Company A, Northeast China).

Proposition 3 illustrated by Case B

'Carrefour has been benefiting from cooperation with local partners. Of course, local policies are important, but they do not have any negative impact on our expansion, because we always maintain good relationships with local government' (Senior Manager, Company B, North China).

Proposition 3 illustrated by Case C

'Local government policies play an important role in our company's expansion into different areas. This very much depends on which areas the retailer operates in, because different areas (cities, provinces, and regions) have different local government policies in China. However, local government policies are built on the basis of central governmental policies, and local government policies therefore need to follow central government policies first before they are interpreted and applied locally' (Senior Manager A, Company C, North China).

'Local governmental policies must be considered, but they cannot be described as important or not important because it depends on whether we can benefit from the local policies or not. If we cannot benefit from them we can somehow ignore them ... Our foreign managers are very discreet and careful. They never cross the boundary by challenging governmental policies unlike the French. For example, German managers feel that they are losing face if a tax officer finds anything wrong in the firm. We have a different way of dealing with local government, which is by doing work in a careful and conscientious way' (Senior Manager, Company C, Middle China).

Based on Case C, proposition 3 will be expanded upon as follows:

Revised proposition 3: It should be noted that local policies are established on the basis of central government policies. Whether or not local policies are important for a foreign retail firm's expansion process very much depends on whether those policies are useful for a particular company.

Proposition 3 illustrated by Case D

'(Local) government policies are important to our company's opening of ten new stores in Beijing, Changchun, Shanghai, and Guangzhou, which was supported by the local government ... Local government policies are important for our expansion' (Senior Manager, Company D, UK).

Proposition 3 illustrated by Case E

'Local and central governmental policies are also important, but these policies were particularly important at the beginning when they were first introduced, and less so now after they have been in place for some time, because all the companies are then in the same position. When the regulations are applied to all, we cannot only rely on any special beneficial policies for our expansion. We need to make the most of the other advantages we have got' (Senior Manager, Case E, Middle China).

According to case E, proposition 3 will be further expanded upon as follows:

Revised proposition 3: Once policies apply equally to all firms, firms will need to make more use of their internal competencies to influence their expansion process.

5.2.4 Proposition 4

Firms' characteristics are important factors that influence the expansion process of foreign retailers in China's market, especially firms' resource commitment, differential advantages and international experience.

Proposition 4 illustrated by Case A

'After China joined the WTO, foreign firms were in the same position to develop. Although governmental policies are vital, we need to focus on competition and other differential advantages ... We started our operations in China operating at a loss. One of our strong differentiating advantages is that we have committed a strong capital base to support our expansion in China' (Senior Manager, Company A, North China).

'We are very confident of our capability. Competition is therefore an advantage for our further expansion' (Senior Manager, Company A, Middle China).

'Our competitive advantage is very important for our expansion in China. Without any competitive advantage, no foreign retailer would be able to expand' (Senior Manager, Company A, Northeast China).

Proposition 4 illustrated by Case B

'Our company has rich and abundant international experience, accumulated from the 1960s, which is very important to our expansion in China. This special characteristic of our firm has played a significant role in our expansion and performance in foreign markets, including China. Before we entered China, we were operating in Taiwan, where the company learned a lot about Chinese culture, consumer behaviour, and other useful information regarding Chinese markets' (Senior manager, Company B, North China).

Proposition 4 illustrated by Case C

'If we did not have any competitive advantages, we would not be able to expand at all. In other words, in the competition for expansion in China, firms' resources and competitive advantages are essential and important' (Senior Manager A, Company C, North China).

'The company's characteristics are also important factors that influence our expansion. However, this does not mean if a company has good resources and competitive advantage it will expand successfully.

Competitive advantages are essential, but not sufficient for foreign retailers to expand in China, because other factors are also important, such as changes in governmental policies and the expansion in the decision-making process' (Senior Manager B, Company C, North China).

According to above explanations, proposition 4 will be revised as follows:

Revised proposition 4: Firms' characteristics are important factors that influence the expansion process of foreign retailers in China's market. However, only having competitive advantages may not be sufficient for foreign retail firms to expand successfully. Other factors are also important, such as governmental policies and decision-making.

Proposition 4 illustrated by Case D

'Our company characteristics are important for our expansion in China ... We have our own distinctive character compared with other international retailers. We entered China through acquisition after having done research on the Chinese market for four years ... Our company is so different and unique. We have our own approach to customers, which is very local, providing different products to meet local customers' needs' (Senior Manager, Company D, UK).

Proposition 4 illustrated by Case E

'We have a very strong financial background, but we do not have much international experience. Adopting the Japanese culture mainly during the operation, we have expanded and grown very carefully in China. Our lack of international experience has had effects on our expansion process in China' (Senior Manger, Company E, Middle China).

5.2.5 Proposition 5

Decision-makers' characteristics are important factors that influence the expansion process of foreign retailers in China, including decision-makers' perceptions and attitudes, work experience, leadership delegation (empowerment to Chinese managers), and education level.

Proposition 5 illustrated by Case A

'As for our expansion decision making, the American management team tends to take the control (in our company) ... The fact that

the decision-makers are American has significantly influenced our expansion' (Senior Manager, Company A, North China).

'The characteristics of decision-makers are a basic influential factor because our company has its own strong culture and a long history and whoever comes to work in this company must fit in with the company's culture' (Senior Manager, Company A, Middle China).

'Teams are very important in our company, but everyone has to fit in with the company's culture. Anyone taking a leadership role in a team must fit in with the company's culture. That way, if anyone leaves the company, things will continue to operate as normal' (Senior Manager, Company A, Northeast China).

According to the above explanation, proposition 5 will be revised as follows:

Revised proposition 5: Decision-makers' characteristics are important factors that influence the expansion process of foreign retailers. If the foreign retail firm has a strong corporate culture, then the decision-makers' characteristics are consistent with the corporate culture. Therefore, both decision-makers' characteristics and corporate culture are important factors that influence the expansion process of foreign retailers in China's market.

Proposition 5 illustrated by Case B

'Learning from the company's international experience, our decision-makers, who have got substantial retail experience, are very open and flexible. We therefore have adapted to the Chinese retail environment in a very effective way, which is the main reason why our company has become the biggest foreign retailer in the Chinese market' (Senior Manager, Company B, North China).

Proposition 5 illustrated by Case C

'Generally speaking, our top managers and management teams are very careful and discreet, which has significantly held back the speed of our expansion process in China' (Senior Manager A, Company C, North China).

'In general, the work experience, understanding, and attitudes of our leaders are very important factors that influence the direction of our expansion' (Senior Manager B, Company C, North China).

'Our people all work in teams. The characteristics of the leaders should be analysed as the characteristics of the teams in our company. Teamwork is therefore more important for our expansion in China. Not only one person, but a team or several teams make expansion decisions. The decision-makers in our company are very experienced in retailing and they all have a good educational backgrounds. The top team is also very profit-oriented. All these factors have been positively influencing our expansion in China' (Senior Manager, Company C, Middle China).

Proposition 5 illustrated by Case D

'Decision-makers' characteristics are important for our expansion (in China) ... Local teams are empowered to make decisions regarding the opening of new stores, because the investigation of the local market is so important to our expansion ... Our people work in a team – we are in one team; it is an influence on our culture and very important to the business. We treat people with respect, and expect them to be good to the customers. These are all good values of our company' (Senior Manager, Company D, UK).

Proposition 5 illustrated by Case E

'The characteristics of the people who make the decisions are very important for our expansion. Japanese managers are very careful, discreet, and conscientious, and thus the firm's expansion has been taken very slowly ... We both belong to East Asia and share a connected border, and Japanese culture is not so different from the Chinese culture. But the firm tends to keep its own strong management style and culture, which makes sure that if anybody leaves the firm, we will still be running in a normal way and not be affected' (Senior Manager, Company E, Middle China).

5.2.6 Proposition 6

Psychic distance is an important factor that influences the expansion process of foreign retailers in China, particularly the influence of the firms' culture and their management style as their response to psychic distance.

Proposition 6 illustrated by Case A

'Following its own management style with less flexibility in a foreign market, our company took a slow expansion strategy in China. We

started off in a few big and important cities much later than other competitors ... Our company's culture is very important for our expansion process in China. We mainly adopt an American management style, which to some extent limits our expansion in China because we did not recognize the great psychic distance between China and the US. A complete American management system does not work well in China due to the cultural differences, and this has affected our potential growth in the Chinese market' (Senior Manager, Company A, North China).

'Psychic distance is very important, particularly in our development process' (Senior Manager, Company A, Northeast China).

Proposition 6 illustrated by Case B

'In order to better adapt to the Chinese retail environment and Chinese management culture, our company seriously considers the psychic distance between China and Western countries. For example, in order to satisfy the taste of Chinese customers, most products that are sold in our store are made in China. In particular, we have adopted effective localization strategies when expanding in the Chinese market' (Senior Manager, Company B, North China).

Proposition 6 illustrated by Case C

'Psychic distance plays a significant role in our expansion. The important decision makers for our expansion plans are from Germany. Due to the cultural differences, they sometimes have particular views on Chinese culture. These could hold the firm back during the expansion process' (Senior Manager A, Company C, North China).

'Psychic distance issues significantly influenced our expansion in China. For example, our managers are too discreet. The firm therefore has lost lots of opportunities to expand, and now the firm is having to adjust its understanding of psychic distance and is going to expand more rapidly' (Senior Manager B, Company C, North China).

'We have now started to get Chinese managers involved in the senior levels of management. Otherwise, the localization process would be very slow, as Western managers do not know as much about Chinese culture, management style and consumer behaviour as local Chinese managers do ... Psychic distance needs to be seriously considered during our expansion in China' (Senior Manager, Company C, Middle China).

Proposition 6 illustrated by Case D

'At times, our company faces a similarly difficult situation in China to that of in other countries: we could not open stores in some of the locations we wanted. This, however, happens in every country, it happens in China too. We have local teams who understand local culture better ... We are still doing business as a local store with a local name (in China)' (Senior Manager, Company D, UK).

Proposition 6 illustrated by Case E

'We did adjust to understanding the Chinese culture and considered cultural differences between Japan and China' (Senior Manager, Company E, Middle China).

Proposition 6 illustrated by Company X

'Noticing and dealing with psychic distance cannot be judged as good or bad. It is a gradual process for foreign retailers' (Senior Manager A, Company X).

In general, original proposition 6 has been supported by the data collected. However, according to the illustration of Company X, proposition 6 will be expanded as follows:

Revised proposition 6: Understanding and dealing with psychic distance is a gradual process influencing the expansion of foreign retailers in China's market.

5.2.7 Proposition 7

Making good regional, city, and store location choices has a significant impact on the expansion process of foreign retailers in China's market. Such choices are influenced by local political, economic, social, and cultural issues.

Proposition 7 illustrated by Case A

'Our company is very aware of the importance of store location in China because not many people drive to shop here. At the beginning, we tried to bring American culture to China, but the firm is gradually becoming more localized regarding store locations' (Senior Manager, Company A, Middle China).

Proposition 7 illustrated by Case B

'With the purpose of achieving a better localization status, we analysed the differences among different parts of China regarding

different cultures and development levels when making location choices. For example, we opened many stores in Beijing and Shanghai based on the consideration that the cities have a higher economic and development status. We firstly occupied these important markets, and then expanded into Northeast, Middle, as well as West China. We have established an across the country network of stores. Carrefour also responded very positively to the Chinese central government's 'Go West' plan and took the lead to open stores in West China, such as in Urumqi, Xinjiang Uygur Autonomous Region' (Senior Manager, Company B, North China).

Proposition 7 illustrated by Case C

'Location choices are crucial for our expansion. We first entered Shanghai and have since been expanding very carefully' (Senior Manager A, Company C, North China).

'Our company's expansion process is mainly decided by the foreign managers. We opened our first store in Shanghai. The reason why the company went to Shanghai in the first place was because our JV partner was based in Shanghai ... In particular, China has been seen as different markets, because people from different regions have different preferences and buying behaviours, which need to be considered especially by foreign retailers when opening stores in different locations. Food retailers particularly need to understand the unique culture, tastes, and shopping habits of different customers in different regions in China. Therefore, a deep knowledge of China's market regarding different provinces and regions is essential for our expansion. In addition, different parts of China are developing in an unbalanced way, which must also be considered during our expansion process' (Senior Manager B, Company C, North China).

Proposition 7 illustrated by Case D

'We have the capability to compete with any company. Wal-Mart did not choose good locations in Shanghai, even in the whole Chinese market. We have focused on Beijing, Shanghai, and Guangzhou and the cities around, where we can benefit the most from co-operating with our local partners' (Senior Manager, Company D, UK).

'Consumers are so different in different parts of China. For example, the taste in Guangzhou in the South is very different from that of Shenyang in the Northeast of China. We are expanding but we are taking gradual steps based on the three main cities (Beijing,

Shanghai, and Guangzhou). The second-tier cities are also important to us, but we are not in a hurry to expand too quickly. In addition, we prefer not to build hypermarkets in smaller cities, as we believe that being local and small is more efficient there' (Senior Manager, Company D, UK).

Proposition 7 illustrated by Case E

'Our expansion focuses on areas around Changsha, including Hunan, Hubei, and Jiangxi provinces in Middle China, where we are close to our main Changsha store' (Senior Manger, Company E, Middle China).

'Political, economic, social, and cultural issues are very important aspects of our expansion. Heiwado is not suitable to compete in very developed areas like Shanghai at the moment, because we have not gained abundant international experience ... in order to stand steady in one region then another, our expansion direction will be around Hunan provinces like Hubei and Jiangxi. Not only is this because we have a store near these provinces, but also because in these regions, department stores are not out of date yet due to the slower economic development compared to the rapid developing areas like East or South China. After having had a strong foundation in these regions, we may consider going further afield to expand in other provinces and regions' (Senior Manager, Company E, Middle China).

As shown by the above illustrations, proposition 7 covers the points made by foreign retailers in this study.

During the explanation building analysis for the interview data, seven important emerging themes were also identified.

5.2.8 Emerging theme 1

Internal commercial agreements between separately operated retail firms influence the expansion process of foreign retailers in China's market.

Illustrated by Case C

'Expansion of international retailers in China has been limited by commercial anti-competitive internal agreements. This is illustrated in the case of the agreement between the German retailer Metro and Dutch retailer Makro (Wankelong), which was a part of the Metro

group in Germany, but operated as an independent company in China. Metro and Makro agreed that if one of them opened any stores in a locale in China, the other should not expand their stores into the same locale. This internal agreement has a significant influence on the overall expansion process of the Metro Group in China' (Senior Manager of Metro, North China).

5.2.9 Emerging theme 2

Chinese law and legal regulations covering the expansion of foreign businesses in China have had a significant impact on the expansion process of foreign retailers in China's market.

Illustrated by Case A

'Before 11 December 2004, restrictions were in place limiting the expansion of foreign retailers in China. Foreign retailers were permitted only to open stores in the coastal cities, capital cities, and other authorized cities. After this date, the law changed, permitting foreign retailers to open stores wherever they chose. This change in governmental laws and regulations had a significant influence on the expansion process of foreign retailers in China's market' (Senior Manager of Wal-Mart, Middle China).

Illustrated by Case B

'The reason why Carrefour did not strictly follow the central government's policies at times was because the central government did not always provide clear rules. Since the central governmental policies and regulations became clearer, the firm has started to follow these policies and regulations strictly' (Senior Manager of Carrefour, North China).

Illustrated by Case C

'The factors that influence foreign retailers' expansion process in China should be summarized into three main aspects, including regulation and policies, companies' conditions, and investment factors' (Senior Manager B of Metro, North China).

5.2.10 Emerging theme 3

Business networking between the retail firm and the local government is a crucial factor that influences the expansion process of foreign retailers in China's market.

Illustrated by Case A

'The second factor that influences our expansion process in China depends on the pattern of the business networking ... Whether or not the new stores can be opened in a city or region very much relies on the networks that we have with the local government' (Senior Manager of Wal-Mart, Middle China).

Illustrated by Case D

'Tesco applies local management teams to deal with *guanxi* networks' (Senior Manager of Tesco, UK).

5.2.11 Emerging theme 4

Market investigation and research is a very important influence on the expansion process of foreign retailers in China's market.

This concerns the investigations of a company to guide the investment decision, and includes investigation of governmental policies and attitudes of government officials, and the characteristics of the local business and market environment.

Illustrated by Case A

'We research governmental attitudes and the characteristics of the specific location to decide whether or not to open a supermarket in that location. This has an impact on our expansion' (Senior Manager of Wal-Mart, Middle China).

'[We research] the market environment to determine what customers in that region like or dislike, and use this information to help us decide where to expand' (Senior Manager of Wal-Mart, Middle China).

Illustrated by Case C

'Investigation is always important before the company undertakes any further expansion ... Metro compared itself with two retail stores operating locally before we entered Changsha (Hunan province) in terms of purchase capabilities and characteristics of the business ... Metro in Beijing has taken three years just for investigating the market before the first store opens' (Senior Manager of Metro, Middle China).

Illustrated by Case D

'We have seen the growth in business opportunities when expanding into new cities [in China]. Tesco is very careful about doing market

research before going anywhere to open new stores. Investigation of the local market is so important to Tesco's expansion' (Senior Manager of Tesco, UK).

5.2.12 Emerging theme 5

A localized management team is a crucial factor that influences the success of the expansion process of foreign retailers in China's market in the long run.

Illustrated by Case A

'There are some problems that affect Wal-Mart's expansion in China. Wal-Mart's lack of good employees in management positions has slowed down our growth in China. We lack good knowledge of the Chinese market, the distribution systems, familiarity with local regulations, and training [of staff about China's market] and so on' (Senior Manager of Wal-Mart, Middle China).

'There are some cultural issues that Wal-Mart needs to further address. At times, Chinese colleagues feel embarrassed by not being of the Chinese culture when dealing with local governments. For example, we do not provide any gifts for the local governments even when the managers need to meet the local officials during a festival, such as the Chinese New Year' (Senior Manager of Wal-Mart, Northeast China).

Illustrated by Case D

'Tesco applies local management teams to deal with *guanxi* networks ... Local teams have the rights to make decisions regarding the opening of new stores, because the investigation of the local market is so important to our expansion' (Senior Manager of Tesco, UK).

Illustrated by Case E

'Heiwado tends to keep maintaining Japanese culture and the top management teams are mainly constituted of Japanese, which is one of the factors holding back the firm's expansion' (Senior Manager of Heiwado, Middle China).

5.2.13 Emerging theme 6

The degree of localization has been identified as a significant factor that influences the expansion process of foreign retailers in China's market.

Illustrated by Case A

'Wal-Mart has been taking gradual steps in localization. We found that many Chinese people treat supermarket shopping as a leisure activity, and people often take breaks during the day to shop. But in comparison with Western customers, they tend to window shop more than they buy, and tend to make smaller, but more frequent purchases. According to these characteristics of Chinese consumers, Wal-Mart has designed small and efficient check-outs in the stores to improve customer service' (Senior Manager of Wal-Mart, Middle China).

Illustrated by interview with CCFA regarding Case A

'Wal-Mart did not consider localization at the beginning. For example, they required a low price from their suppliers and did not charge any display fees. But they found this strategy did not really suit the Chinese market because suppliers would not have much profit if they gave Wal-Mart lower prices. The suppliers were also unable to offer Wal-Mart lower prices than other customers. Wal-Mart started to charge display fees in order to get more profit because lower prices were not always available' (Senior Manager A of CCFA).

Illustrated by Case B

'We have tried to build up our stores in the centre of cities or in the centre of residential areas in order to provide convenience for our customers who do not drive cars (car ownership in China is very low). Carrefour stores are located where convenient bus services are available, taxis can be waiting easily outside, and three-wheeled bicycles can be easily parked so as to wait for customers outside the store' (Senior Manager of Carrefour, North China).

Illustrated by Case C

'Localization is a steady process, and our understanding [of the local market] changes with this process ... Localization is in the process [of moving] from being unfamiliar to familiar, and then to being trustworthy in the market. It takes time for a foreign retailer to know the local market' (Senior Manager of Metro, Middle China).

Illustrated by Case D

'Our company is so different and unique. We have different approaches to customers, which is very local and provides different products to meet different customers' needs ... Local teams have the

rights to make decisions regarding opening new stores, because the investigation of the local market is so important to our expansion, and local teams understand the local market better' (Senior Manager of Tesco, UK).

Illustrated by Case E

'Adopting mainly the Japanese culture during the operation, Heiwado expands and grows very carefully and slowly in China' (Senior Manager of Heiwado, Middle China).

5.2.14 Emerging theme 7

The distribution system is a one of the core factors that influences the expansion process of foreign retailers in China's market.

Illustrated by Case C

'The huge distances [in China] have an important influence on the distribution system, which is one of the main factors that influence our expansion' (Senior Manager of Metro, Middle China).

Illustrated by Case D

'It is not easy to expand quickly if we have not an efficient distribution system. Tesco builds business based on the economy of scale; therefore, we need a distribution network [ready] as a basis before we start any expansion' (Senior Manager of Tesco, UK).

Illustrated by Case E

'Our expansion focuses on areas around Changsha, including Hunan, Hubei, and Jiangxi provinces in Middle China, where we are close to our main Changsha store. The reason why the company has adopted this strategy is because the firm needs to expand from its central foundation and distribution system' (Senior Manager of Heiwado, Middle China).

5.3 Assessing the quality of data analysis

In order to achieve a high quality of data analysis, the data are analysed based on the following procedure: First, all the evidence is given attention. The analysis shows that it sought as much relevant evidence as was available and that the interpretations cover all of this evidence. Second, the most important aspects of the case studies are emphasized and given

the most attention. Finally, the expert knowledge of the author in this study field is provided for the readers.

Data for each proposition are presented and possible errors are noticed. All the interviews that have been done have showed that additional explanations would be few, in other words, it seems that all the answers given have almost reached a theoretical saturation (Gillham, 2005). The interviews were conducted with different managers in the same firms whenever possible, for example, interviews conducted with more than two managers in both Wal-Mart and Metro. In addition, the international retailers in case studies are originally from various developed countries across the world from North America (Wal-Mart), Europe (Carrefour, Metro, Tesco), and East Asia Japan (Heiwado). These retailers were at different success levels on the expanding process in China, including the most successful foreign retailers Carrefour, Wal-Mart, Metro, Tesco, and a non-successful retailer Heiwado. The data from these case studies provided repetitive outcomes. The data therefore can strongly support the cross-case analysis and the results of this study.

The results of the explanation building process can lead to a cross-case analysis, not only focusing on an analysis of each individual case (Yin, 2003). Cross-case analysis and results are introduced in Chapter 6 and will concern all identified factors by data analysis in this chapter.

6

Cross-Case Analysis and Results

Introduction

Explanation building analysis in Chapter 5 led to starting cross-case analyses (Yin, 2003). This chapter will conduct cross-case analysis and present results. All the propositions and emerging themes are to be given a code before cross-case analysis, so that the relationships and connections between coded factors will be obviously seen. Cross-case analysis includes cross-case interview analysis, questionnaire analysis, and document data analysis. The data analysis is mainly based on the six factor categories identified in Chapter 5: external environment, country-specific factors (emerging themes), internal competencies, firm-specific factors (emerging themes), psychic distance, and location choices; the results are presented simultaneously. According to the results, a newly developed framework will be introduced to explain the factors influencing the expansion process of foreign retailers in China, as the main contribution of this study. Finally, the conclusions will be drawn.

6.1 Cross-case analysis

Detailed case study write-ups for each site are involved in within-case analysis (Eisenhardt, 1989). Before the write-ups of the cases, transcribed interviews, field notes, and documents should be read thoroughly and manually coded based on the analytical categories derived from the adopted frameworks. After the data were analysed by explanation building analysis within cases, cross-case analysis was conducted to achieve high validity, including cross-case interview analysis, questionnaire analysis, and document data analysis. Content analysis is

one of the classical procedures to analyse textual material ranging from media products to interview data (Bauer, 2000). Content analysis can be qualitative, quantitative, or both (Trochim, 2006). Content analysis by thematic analysis of text and indexing is applied in this cross-case analysis to analyse interviews and document data, including identification, analysis, and discussion of emerging themes. Codebooks are given to questionnaire data. The analysis focuses on the identifiable themes of factors that influence the expansion process of foreign retailers in China's market.

All the themes that emerged from the interview transcriptions, questionnaires, and document data were organized together in order to develop a comprehensive picture. The sections below introduce the cross-case interviews, documentation content data analysis, and questionnaire analysis.

6.1.1 Cross-case interview data analysis

The entire interview data were analysed through the application of thematic text analysis and cross-sectional indexing. Cross-sectional indexing is also referred to as 'categorical indexing', which is a consistent system for indexing the whole data in interviews (Mason, 2002).

The contextual units, analytic units, and coding units are defined in cross-case interview analysis based on the individual case explanation building analysis. The *contextual units* refer to the largest element in the text, which may fall under a category; *analytic units* refer to passages that are analysed one after the other; and *coding units* refer to the smallest element of material which may be analysed, that is, the minimal part of the text which may fall under a category (Mayring, 2000, 2004). Cross-case interview analysis includes all the propositions and emerging themes explained from the explanation building analysis. The coding contains 6 contextual units (also referred to as factor categories), 8 analytic units, and 23 coding units. These are shown in Table 6.1. The code numbers generally follow the order of propositions explained and new themes emerged when possible.

Most factors in the different categories were predetermined in the propositions because of the nature of explanatory research, aiming to develop a new model based on previous literature; other factors or categories emerged from the unanticipated responses. The relationships between the coding units of interview data and the propositions set up are shown in Table 6.2.

The interview data analysis was organized according to the six factor categories (see Table 6.2), which are generalized from propositions and

Table 6.1 Coding of categorized data based on explanation building analysis

Contextual units Factor categories	Coding	Analytic units	Coding	Coding units	Coding
External environment	Ex.	External environment	Ex.	WTO	Ex.1
				Central government policies	Ex.2
				Local government policies	Ex.3
				Laws and regulations	Ex.4
Country-specific factors	Csf.	Country-specific factors	Csf.	Distribution system	Csf.1
Internal competencies	In.	Firms' characteristics	In.1	Resource commitment	In.1.1
				Competitive advantages	In.1.2
				International experience	In.1.3
				Perceptions and attitudes	In.2.1
		Decision makers' characteristics	In.2	Work experience	In.2.2
				Leadership delegation	In.2.3
				Education level	In.2.4
Firm-specific factors	Fsf.	Firm-specific factors	Fsf.	Firms' internal agreement	Fsf.1
				Business networking	Fsf.2
				Investigation and research	Fsf.3
				Localized management team	Fsf.4
				Degree of localization	Fsf.5
Psychic distance	Ps.	Firms' culture	Ps.1	Firms' culture	Ps.1
		Management styles	Ps.2	Management styles	Ps.2
Location choice	Lo.	Location choice	Lo.	Political issues	Lo.1
				Economic conditions	Lo.2
				Social issues	Lo.3
				Cultural issues	Lo.4

Table 6.2 Relationships between the coded categories of interview data and the propositions

Coded units	Related propositions (P)
Ex.1, Ex.2, Ex.3	P1, P2, P3
In.1 (In.1.1, In.1.2, In.1.3)	P4
In.2 (In.2.1, In.2.2, In.2.3, In.2.4)	P5
Ps (Ps.1, Ps.2)	P6
Lo. (Lo.1, Lo.2, Lo.3, Lo.4)	P7
Ex.4, Csf.1, Fsf.1, Fsf.2, Fsf.3, Fs.4, Fsf.5	None

emerging themes from the interview data (underlined in Table 6.3), with a purpose to establish a new model to explain the factors influencing the expansion process of foreign retailers in China. Table 6.3 summarizes the results of the cross-case interview analysis.

All the propositions set up in this study have been explained by interviewees. In addition, all factors in the propositions have been argued at or above the 'important' or the 'essential' level, except for the importance of central and local governmental policies. This depends on how useful these policies are to particular foreign retailers' expansion activities, evidenced by two interviewees. Seven emergent themes were discovered. These are divided into the following categories: laws and regulations (external environment factor category); distribution system (country-specific factor category); firms' internal commercial agreements; business networking; investigation and research; localized management team; and degree of localization (firm-specific factor category). These emerging themes are coded in Tables 6.2 and 6.3 and explained in Chapter 5 from section 5.3.1 to section 5.3.7. Any themes that emerged from questionnaire analysis or document analysis will be organized into corresponding factor categories.

6.1.2 Cross-case questionnaire analysis

All the questionnaires were filled in during the interviews when possible and the explanations as to why the interviewees chose the particular answers were given. Therefore, small discussions occurred when appropriate, while interviewees were answering the questionnaires. Emerging theme Ex.4 (Laws and regulations) was added in the questionnaires after it was raised by the ninth interviewee, because of its importance and the fact that the implied answers of previous interviewees to this specific question could be reasonably given based on their explanations to other external environmental issues. Two more answers were obtained

Table 6.3 Results of cross-case interview data analysis

Ex.	Csf.			Fsf.					Ps.			Lo.						
	Ex.1	Ex.2	Ex.3	Ex.4	Csf.1	In. 1	In. 2	Fsf.1	Fsf.2	Fsf.3	Fsf.4	Fsf.5	Ps.1	Ps.2	Lo.1	Lo.2	Lo.3	Lo.4
IN 1	V.I.	V.I.	I.	I.	-	E.	V.I.	V.I.	-	-	-	-	M.I.	M.I.	V.I.	V.I.	V.I.	V.I.
IN 2	I.	D.	D.	V.I.	-	I.	V.I.	-	-	-	-	-	V.I.	V.I.	V.I.	V.I.	M.I.	M.I.
IN 3	V.I.	V.I.	V.I.	-	-	I.	I.	-	-	-	-	-	I.	I.	V.I.	V.I.	I.	I.
IN 4	I.	I.	V.I.	-	-	V.I.	V.I.	-	-	-	-	-	E.	E.	I.	I.	I.	I.
IN 5	I.	I.	V.I.	I.	-	V.I.	V.I.	N/A	-	-	-	-	V.I.	V.I.	I.	I.	I.	I.
IN 6	I.	I.	I.	V.I.	-	V.I.	V.I.	N/A	-	-	-	-	V.I.	V.I.	V.I.	I.	V.I.	V.I.
IN 7	N/A	N/A	N/A	N/A	I.	V.I.	V.I.	N/A	I.	-	-	-	I.	I.	N/A	N/A	N/A	NA
IN 8	V.I.	I.	D.	-	I.	M.I.	V.I.	N/A	-	I.	-	-	V.I.	V.I.	I.	I.	V.I.	V.I.
IN 9	V.I.	V.I.	V.I.	V.I.	-	I.	I.	N/A	V.I.	I.	V.I.	I.	V.I.	V.I.	I.	I.	I.	I.
IN 10	V.I.	I.	I.	-	I.	V.I.	V.I.	N/A	-	-	I.	I.	I.	I.	V.I.	V.I.	V.I.	V.I.
IN 11	V.I.	V.I.	V.I.	-	-	V.I.	V.I.	N/A	-	-	I.	-	V.I.	V.I.	V.I.	V.I.	V.I.	V.I.
IN 12	I.	I.	I.	-	E.	V.I.	V.I.	N/A	I.	V.I.	V.I.	V.I.	V.I.	V.I.	I.	I.	I.	I.

(IN = Interview; V.I. = Very important; I. = Important; M.I. = Mostly important; N/A = Not applicable; D. = Depends; E. = Essential; '-' = Not available)

Table 6.4 Accompanying data matrix

Code	Ex.1	Ex.2	Ex.3	Ex.4	In.1	In.2	Ps.	Lo.	In.2.1	In. 2.2	In.2.3	In.2.4
IN 1	1	2	2	9	8	1	1	1	5	1	8	1
IN 2	1	1/4	1/4	9	1/4	1	1	1	5	1	5	1
IN 4	2	2	1	9	2	1	3	2	9	9	8	9
IN 5	2	1	2	9	2	1	2	2	9	9	9	9
IN 6	2	1	2	9	1	1	9	1	1	1	1	9
IN 8	1	2	8	9	2	1	2	1	5	1	1	1
IN 9	1	2	2	1	1	4	1	2	5	1	1	3
IN 10	1	2	2	9	1	1	9	1	5	1	5	1
IN 11	2	1	1	1	1	1	1	1	1	1	1	3

(IN = Interview)

on Ex.4 from the rest of interviews. The questionnaire and codebooks are shown in Appendix 4.

The first eight questions were given the same scales (very important 1; important 2; not concerned 3; not important 4; and useless 5), because the factors that are related to these questions (Ex.1, Ex.2, Ex.3, Ex.4, In.1, In.2, Ps. and Lo.) were considered similarly important in the propositions based on the literature review. Question 9 regarding [In.2.1] and [In.2.3] were scaled in only two ranges (1 and 5), because the degree of flexibility and empowerment could not be easily analysed at more than two varied levels. Consequently, [In.2.1] was scaled as flexible and conservative approaches and [In.2.3] was scaled as high and low empowerment to Chinese managers. Scale 1 represents a flexible approach and a high level of empowerment, and scale 5 represents a conservative approach and a low level of empowerment. Similarly questions 10 and 11 use three ranges (1, 3, and 5) because it is more appropriate to describe decision-makers' work experience [In.2.2] and educational level [In.2.4] at three levels, including high, meaning very experienced or highly educated (1); and low, meaning not experienced or low level of education (5); and one level (3) representing the case in which work experience and education level are not essential for foreign retailer expansion in China.

The accompanying index is shown in Table 6.4. All the variables are recoded by mirroring, which means the lowest score becomes the highest one and the highest score is interpreted as the lowest one (Velde *et al.*, 2004). That is, variable name – recode: 1 = 5; 2 = 4; 3 = 3; 4 = 2; and 5 = 1, the higher score represents more important factors. In Table 6.4, missing values are represented by number 9 and number 8 represents

Table 6.5 Coding data matrix

Code	Ex.1	Ex.2	Ex.3	Ex.4	In.1	In.2	Ps.	Lo.	In.2.1	In.2.2	In.2.3	In.2.4
IN 1	5	5	2	5	5	5	5	5	1	5	–	5
IN 2	5	5/2	5/2	5	5/2	5	5	5	1	5	–	5
IN 4	4	4	5	4	4	5	3	4	N/A	N/A	N/A	N/A
IN 5	4	5	4	5	4	5	4	4	–	–	–	–
IN 6	4	5	4	4	5	5	5	5	5	5	–	–
IN 8	5	4	3	4	4	5	4	5	1	5	5	5
IN 9	5	4	4	5	5	2	5	4	1	5	5	3
IN 10	5	4	4	4	5	5	5	5	1	5	1	5
IN 11	4	5	5	5	5	5	5	5	5	5	5	3
Average	4.56	4.56/	4/3.67	4.56	4.67	4.67	4.56	4.67	2.1	5	4	4.33
Mode		4.22										

(IN = Interview; N/A = Not applicable)

that interviewees gave answers that are not included in the questionnaire. The accompanying recode index is shown in Table 6.5. The missing values and other kinds of answers are filled in by considering the respondents' answers to comparable questions and conversations in the interviews (Velde *et al.*, 2004).

The mode, a descriptive central tendency measure for nominal variables, is most suitable for analysing the data in a coding matrix (Velde *et al.*, 2004). Therefore, modes are calculated as average, and most of the missing codes are filled in wherever possible by analysing similar answers given by the same interviewees in the conversations of the interviews (particularly for emerging theme 2, Ex.4); however, for the variables [In.2.1], [In.2.2], [In.2.3], and [In.2.4], missing values are kept empty because these variables are coded as extreme levels such as 'high' or 'low', in which any misjudgement will significantly affect the result.

The first 8 modes showed that all the factors covered are above the mean value of the scale (i.e. level 3 = (1+2+3+4+5)/5), and most of them are over 4.5 [Ex.1, Ex.2, Ex.4, In.1, In., Ps. and Lo.] and therefore are important factors influencing the expansion process of foreign retailers in China. The analysis of the questionnaires indicated a slightly different variable on local government policies [Ex.3], which explains that whether these policies are very important can also depend on firms' specific experience and attitudes; however, the extent of the importance of local government policies is also above the average level, which shows the important extent changes are based on the basic importance level.

[In.2.1] mode is 2.1, which is the smallest mode among all the variables, meaning that most of the decision-makers in foreign retail firms behave carefully and conservatively on the firms' expansion process in China. The highest mode is on managers' work experience [In.2.2], which is 5; therefore, managers in foreign retail firms have very in-depth work experience in the retail sector. Average mode of leadership delegation (empowerment to Chinese managers) [In.2.3] is 4, indicating that foreign retail firms tend to empower Chinese managers in the expansion process in China; however, this mode is lower than many other factors. Most of the managers' education levels [In.2.4] are high, but the evidence also shows that whether managers have a higher education or not is not essential; therefore, the average mode for the importance of education is lower than some of the other factors.

Quantitative data collected at the end of every interview whenever possible confirmed and supported the interview data in this study. The design of the questionnaire closely followed the topics addressed in the interviews so that the answers from both methods could be compared easily. It needs to be clearly identified that the questionnaires were filled in by the same interviewees who answered the interview questions. The detailed results are presented later in this chapter.

6.1.3 Cross-case document data analysis

Document data were applied to triangulate with interview data and data collected by questionnaires. They were also set in a broad context throughout the study when necessary. In this case, the document data supported the background of this study with relevant figures and written materials, involving economic transition, China's WTO entry, FDI in China and transition in China's retail sector, China's retail structure and environment, and foreign retailer expansion activities in China. All the figures and other data gave evidence that China's economy is growing rapidly in its transitional process; as one of the results, China's retail sector is also in transition. This type of document data mainly focused on the following crucial points:

- The changes in governmental policies and how these policies influenced the Chinese retail sector, including China's entry into WTO, central government policies, and local government policies.
- The flows of FDI in the retail sector in China in the past decade, in particular the foreign investment flows in the retail sector.
- Foreign retailers' expansion activities in China since they entered the country, particularly focusing on the five cases selected in this study.

- Factors that have influenced foreign retailers' expansion process in the Chinese market, focusing on external environment (governmental policies), internal competencies (foreign retail firms' and decision-makers' characteristics), psychic distance, and location choices.

Another type of document data was particularly collected to support or justify interview and questionnaire data through triangulation in order to more accurately answer the research questions and achieve the research aim. Since this part of the data collection was conducted after the interviews and questionnaires had been collected as a part of the cross-case analysis, not only the proposition factors needed to be explained, but also the emerging themes when possible.

Content analysis is applied to the document data (Mayring, 2000, 2004). First, the material is defined and those parts that are relevant to answering the research questions in the documents are selected. Second, the research questions are further differentiated based on the theoretical framework. Third, similar to the interview data analysis, the contextual, analytic, and coding units are defined. The contextual units refer to what is the largest element in the text, which may fall under a category; the analytic units refer to which passages are analysed one after the other; and coding units refer to what is the smallest element of material which may be analysed, that is, the minimal part of the text which may fall under a category. The document material is paraphrased; in the first reduction, less relevant passages and paraphrases with the same meanings are skipped; in the second reduction, the similar paraphrases are bundled and summarized. The purpose is to reduce the material by skipping statements included in a generalization through summarizing the material on a higher level of abstraction.

All the articles in the *China Daily* and *China Business Weekly* were sought for by a similar criterion, which involved using the name of each case and the word 'expansion': Wal-Mart expansion, Carrefour expansion, Metro expansion, Tesco expansion, and Heiwado expansion. By using the simplest words, all the relevant factors regarding the expansion process of these companies could be discovered and considered. The summary of articles collected in both newspapers is shown in Table 6.6.

According to Table 6.6, not every firm chosen has a high appearance rate in the chosen media. Table 6.7 shows the number of the appearance of proposition factors being explained in the document data. Emerging themes from the interview data and any other new themes that emerged from the document data are explained separately in

Table 6.6 A summary of articles collected as document data

Name of document	Company					Total
	Wal-Mart Case A	Carrefour Case B	Metro Case C	Tesco Case D	Heiwado Case E	
China Daily	13	7	5	1	0	26
China Business Weekly	11	5	4	2	0	22
Total	24	12	9	3	0	48

Table 6.7 Number of times proposition factors are explained in the document data

Companies	Ex.			In.		Ps.	Lo.			
	Ex.1	Ex.2	Ex.3	In.1	In.2		Lo.1	Lo.2	Lo.3	Lo.4
Case A	21	16	5	4	1	1	1	12	4	7
Case B	12	16	-	4	-	-	-	6	-	-
Case C	4	2	1	1	-	-	-	-	-	2
Case D	1	1	-	1	-	-	-	1	1	1
Case E	-	-	-	-	-	-	-	-	-	-
Total	38	35	6	10	1	1	1	18	5	10

Table 6.8 Number of times emerging theme factors are explained in the document data

Companies	Ex.	Fsf.					Csf.			
	Ex.4	Fsf.1	Fsf.2	Fsf.3	Fsf.4	Fsf.5	Csf.1	Csf.2	Csf.3	Csf.4
Case A	5	-	7	1	9	4	15	2	3	1
Case B	1	-	1	1	1	2	2	5	2	4
Case C	-	-	-	-	1	-	1	-	-	-
Case D	-	-	-	2	-	3	-	-	-	-
Case E	-	-	-	-	-	-	-	-	-	-
Total	6	-	8	4	11	11	18	7	5	5

Table 6.8, which presents the number of times emerging theme factors are explained in the document data.

All the factors addressed in the document data were analysed as a whole in the cross-case analysis. Thus, a synthetic picture can be obtained, and interview and questionnaire data can be triangulated with the purpose to generalize robust results. According to Tables 6.7

and 6.8, document data generally supported the propositions set up in the literature and the emerging themes derived from interviews in a positive way.

Only Fsf.1 (internal commercial agreement) was not found in the document data, given the fact that it is a specific phenomenon between particular firms; all the other factors identified in interview and questionnaire data were positively supported by the document data. Obviously, due to the nature of media, public policies such as the WTO entry and governmental policies are presented more times than other specific factors and due to the need for the media reports to be current. There are three more emerging themes identified by analysing the document data.

6.1.3.1 Emerging theme 8 (Csf.2)

Rivalry in the retail sector is strongest amongst foreign retailers; second-tier and smaller cities and suburban areas around big cities where there is less rivalry with international retailing competitors are preferred by foreign retail giants in their expansion process in China.

Illustrations in searching for Case A

'China has announced the removal of restrictions on foreign investor's shares in commercial business and the stores' locations. Many foreign retailers are prepared to invest more ... and they are expected to open more stores in second-tier cities in China's Middle and Western regions,' said Xu, an analyst from Guotai & Jun'an Securities (Dai, 2004, China Daily, 24 December).

'Foreign retail firms will pick up the pace of their expansion and march into the second-tier cities and the nation's Central and Western regions,' said Professor Li, the School of Economics and Management at Tsinghua University (Liu and Dai, 2005, China Daily, 6 January).

'Foreign retailers' moves to expand into second-tier cities were based in part on the limitations in first-tier cities, where the markets are becoming saturated after a decade of frenzied growth,' said Yu, Vice-Director of the Zhongshang Commercial Economy Research (Liu, 2005b, China Business Weekly, 13 January).

'The full opening of the sector could see the expansion of the foreign conglomerates to small and medium-size cities' (Yan, 2005, China Daily, 18 January).

'Wal-Mart is opening a store in Yuxi, in Southwest China's Yunnan province, which demonstrates the retailer's ambition to expand into second-tier cities. Wal-Mart is also considering opening stores in Weifang, Shandong province and Wuhu in Anhui province. The company is conducting research into opening stores in even smaller cities, such as Shaoxing in Zhejiang province ... We see surging demand for consumption in small and medium-sized cities, which offers us a good chance to expand our investment in China,' said Dong, a spokesman for Wal-Mart China (Jiang, 2005, *China Daily*, 8 December).

Illustrations in searching for Case B

'After China joined the WTO, the demand in the real estate market for large shopping properties increased in the second-tier and smaller cities and suburban areas where competition is far less severe' (Jia, 2002, *China Business Weekly*, 8 January).

'The suburbanisation of commercial facilities is an inevitable trend ... With more and more people moving to the suburbs, these areas will become important for foreign retail businesses,' said Professor Wang, the Business School of Renmin University of China (Jia, 2002, *China Business Weekly*, 8 January).

'China's promise to fully open its retail sector three years after its entry to the WTO is likely to create big demands on large shopping properties, especially in suburban areas where competition is far less severe' (Jia, 2002, *China Business Weekly*, 8 January).

6.1.3.2 Emerging theme 9 (Csf.3)

Improvement in transportation in China is one of the important influences on the expansion process of foreign retailers.

Illustrations in searching for Case A

'The rising levels of individual consumption and private car ownership contribute to the growth of the retail sector particularly in the suburbs ... Rapid expansion of public transportation systems will benefit the malls' (Wang, 2001, *China Business Weekly*, 11 December).

Illustrations in searching for Case B

'The rate of private car ownership in Beijing has been on a steady rise in the past decade. The capital now ranks first in the nation in the number of people who own cars. The figure is expected to grow with anticipated drops in auto prices following China's WTO accession, providing a strong customer base among those living in the suburbs' (Wang, 2001, China Business Weekly, 11 December).

6.1.3.3 Emerging theme 10 (Csf.4)

Urbanization and strong growth in the real estate business in China are influential factors that influence the expansion process of foreign retailers in China.

Illustrations in searching for Case A

'As China scrapped the welfare housing plans and urbanization continues in China, housing demand will escalate in the future and the trend will continue in the long term. Lower interest rates will also contribute to the high demand for housing, as well as a stimulation of the property market due to the rapidly rising property prices. Social retail consumption is expected to grow and contribute 45 per cent to growth of GDP' (Qi, 2005, China Business Weekly, 7 January).

Illustrations in searching for Case B

'The development of large shopping malls in the surrounding areas of Beijing beef up the urbanization of the outskirts areas, which will ease the tension of the densely populated downtown area,' said Pei from CCFA (Wang, 2001, China Business Weekly, 11 December).

Since document data collection was the last part of the data collection in the triangulation, the three emerging themes above can be given more attention in future studies. The sections below show the results of the data analysis.

6.2 Results of study

All the themes that emerged from data analyses are organized together to develop a comprehensive picture. The results are presented in six factor categories identified through the whole data

analyses. These factor categories include four which were identified based on propositions set up after the literature review: external environment, internal competencies, psychic distance, and location choice; and two identified in the emerging themes: country-specific and firm-specific factors.

6.2.1 External environment identification

Results in terms of factors that influence the foreign retailer expansion process by external environment [Ex.] are set up by propositions from four aspects: influence of the WTO [Ex.1], government policies [Ex.2], regional policies [Ex.3], and laws and regulations [Ex.4] – (emerging theme 2).

6.2.1.1 Influence of WTO (Ex.1)

The WTO [Ex.1] agreement was still at the time of this study a crucial factor and influenced the foreign retailer expansion process (Cases A, C, and D). If there had been no WTO [Ex.1] agreement, foreign retailers could not have fully entered into China's retail sector. However, it needs to be noted that since China started opening its retail market before the WTO agreement [Ex.1], some foreign retail firms benefited from the country's openness at an earlier stage (Cases A, B, C, and E). After China's WTO accession [Ex.1], foreign retailers benefited more than ever in their expansion process, which applies to all cases studied. As time passed, all foreign retail firms stood at the same point to compete in the market, benefiting from the same preferential policies. From this period, firms had to make the most of their internal competencies [In.] in order to compete with other rivals in China's market (Case A, B, C, D, and E).

Although some evidence indicated that the importance of the WTO [Ex.1] has been gradually lessening since it was implemented in China, it cannot be denied that the WTO [Ex.1] did play a significant role in the expansion process of foreign retailers particularly before all the restrictions were removed in China's retail sector by the end of 2004.

6.2.1.2 Central government policies (Ex.2)

The results show that the central government policies [Ex.2] played important or very important roles in retail firms' expansion process in China. These policies influence foreign firms' expansion process in different ways. Foreign retail firms must follow the central government policies; any violated behaviours must be corrected (Case B). Although

during the period of China's economic transition from a centrally planned to a market-oriented economy, central government control has been decreasing, it still plays an important role in both domestic and foreign business and central government policies must be obeyed (Cases A, B, C, D, and E). However, similar to the WTO agreements [Ex. 1], the role of central government policies [Ex.2] is slightly reduced once these policies have been implemented for a period of time. This was true for all the cases studied.

Government policies [Ex.2] showed similar characteristics to WTO agreements [Ex.1] on influencing the process of foreign retail firm expansion because in fact China's joining the WTO agreement [Ex.1] was a part of central government policies [Ex.2] directed by the Chinese central government (Case C). China's entry into the WTO [Ex.1] is addressed especially in this study because of the particular role it plays in the Chinese economy and the policies changes in China's retail sector.

6.2.1.3 Local government policies (Ex.3)

All the case studies confirmed that local government policies [Ex.3] are vital for the companies' expansion process in China's market although most foreign retail firms concentrate more on excellent management and good performance. In many cases local government policies [Ex.3] are more important than central government policies [Ex.2] (Cases A, C, D, and E).

Local government policies [Ex.3] have both positive and negative effects on the expansion process of foreign retailers in their areas according to the particular situations for different firms (Cases A, C, and E). With existing international experience and the increasing experience in China's market, foreign retailers have noticed the strong influence of local government policies in China and learned gradually how to deal with them.

Evidence has shown that local government policies [Ex.3] could be particularly important for the process of foreign retailer expansion in China. According to central government policies [Ex.2], Carrefour (Case B) was not allowed to open stores in Geiyang city, Geizhou province, Southwest China. However, the firm did open a store there under the support of the local government. Wal-Mart (Case A) could not enter Shanghai to open its first store, but it entered Shenzhen, South China instead under the support of the local government. This does not mean that Wal-Mart did not want to open stores in Shanghai, but it was due to confidential reasons under the control of local government policies

[Ex.3] that the firm could not benefit from opening a store there at an earlier stage.

Local government policies [Ex.3] must be taken into account, but they cannot be judged by being important or unimportant (Case C). Some firms tend to make the most of positive policies and avoid negative ones (Cases C and B). Others concentrate more on firms' management performance and profit instead of local government controls, which represents foreign firms' conscientious or conservative culture (Cases A and E). Regardless of the situation, the fact remains that foreign firms need to find particular ways to deal with local governments [Ex.3]. Although some firms tend to keep their own culture strongly in place when operating in the Chinese market (Cases A, C, and E), Chinese management culture and governmental policies must be taken into account in their expansion process.

6.2.1.4 Laws and regulations (Ex.4: emerging theme 2)

Laws and regulations [Ex.4] are important and must be obeyed as in the case of the legal procedure for the expansion process of foreign retailers (Cases A and C). One issue addressed especially in this study is that although some policies are written in laws and regulations [Ex.4], flexibility can be obtained from and given by the central or local governments [Ex.2; Ex.3] in China. Foreign retailers have gradually realized that principally they must obey laws and regulations [Ex.4] when operating in China, and over time they can consider that certain flexibility may occur with other cultural influences affecting their expansion process derived from psychic distance [Ps.1] which rests at times beyond laws and regulations.

6.2.2 Country-specific factors (emerging themes 7 to 10)

Emerging themes 7 to 10 are organized in country-specific factors according to their common characteristics in relation to China's infrastructure based systems.

6.2.2.1 Distribution system (Csf.1: emerging theme 7)

Distribution system [Csf.1] is a specific issue in the retail sector. The economic development [Lo.2] and infrastructure directly influence the distribution system for retail firms. The problems existing in China's infrastructure in terms of roads and other relevant facilities have limited the establishment of distribution systems for the foreign retailers. With this limitation, foreign retailers could not expand rapidly in the regions

which are remote or have difficulties reaching their established distribution systems [Csf.1] (Cases C, D, E).

6.2.2.2 Competition-driven suburbanization (Csf.2: emerging theme 8)

With the full restrictions removed in the retail sector according to the WTO agreement [Ex.1], foreign retailers are able to open stores anywhere in China. With competition increasing in big cities in major areas in China, foreign retailers have started to consider opening stores in second-tier cities, smaller cities, and suburban areas [Csf.2] around big cities based on the local economic development [Lo.2] (Cases A, B). Commercial facilities are becoming more suburbanized [Csf.2], and supermarkets and shopping malls will play important roles in the suburban areas in China.

6.2.2.3 Transportation (Csf.3: emerging theme 9)

With the economic development across the country [Lo.2] under central and local government policies [Ex.2 and Ex.3], China's overall transportation system [Csf.3] has been improving. Improved public transportation networks [Csf.3] benefit hypermarkets, supermarkets, and shopping malls even in suburban areas. The continuous increase in the number of car users has also importantly contributed to the expansion of retail firms because consumption grows, benefiting all the cases studied.

6.2.2.4 Urbanization (Csf.4: emerging theme 10)

Urbanization [Csf.4] continues in China with increasing housing demand. This is the result of economic development [Lo.2]. First of all, urbanization brings more residents into cities or suburban areas, which contributes to foreign retailer expansion; second, urbanization in or near second-tier or smaller cities also contributes to foreign retailer expansion (Case A and B).

6.2.3 Internal competencies identification

In this study, internal competencies [In.] focus on firms' characteristics [In.1], represented by resource commitment [In.1.1], differential advantages [In.1.2], and international experience [In.1.3]; and decision-makers' characteristics [In.2], represented by decision-makers' perception and attitudes [In.2.1] for firms' expansion process in China, work experience [In.2.2], leadership delegation (empowerment to Chinese managers) [In.2.3], and education levels [In.2.4].

6.2.3.1 *Firms' characteristics (In.1)*

Firms' characteristics [In.1] are essential and important for the expansion process of foreign retailers in China in all the cases studied. On the basis of government policies [Ex.2 and Ex.3] and laws and regulations [Ex.4], firms must effectively manage their resource commitment [In.1.1] and differential advantages [In.1.2] to compete with other foreign rivals and Chinese domestic retailers in China's market. Foreign retail firms' international experience [In.1.3] significantly benefits the process of foreign retailer expansion in China (Cases B and D).

Firms with different characteristics progress differently when expanding in China. Due to significant psychic distance [Ps.1] between foreign retailers' home countries and China, foreign retail firms with more international experience [In.1.3] (Cases B and D) were able to expand more quickly than those who had less international experience in China (Cases A, C, E). Apart from foreign retailers' resource commitment [In.1.1], which is a must when expanding in an international market, their differential advantages [In.1.2] and international experience [In.1.3] are special strengths that positively influence the expansion process of foreign retailers in China.

6.2.3.2 *Decision-makers' characteristics (In.2)*

Decision-makers in foreign retail firms work in teams in the same way that they operate in their home markets (Cases A, B, C, D, and E). One person's decision cannot represent the whole company, and individual decision-makers' characteristics [In.2] are represented by teams' characteristics. Teams are very important in foreign retail firms, and they play significant roles in the firms' expansion process.

In foreign retail firms, teams represent company culture [Ps.1] and management styles [Ps.2]. In some foreign retail firms, Chinese management teams are not really involved in the decision-making process (Cases A, C, and E). For example, whether or not a new Wal-Mart store will open is eventually decided by the decision-makers in the head office in the US, and their decisions are mainly based on the reports made by American management members in China [In.2.3]. The role of Chinese managers is to provide useful local information to the foreign executives or top managers, who report back to the headquarters.

Firms that entered and expanded in China at a later date tend to have slightly different views because they have had opportunities to learn from other foreign firms. For example, Chinese management teams play vital roles in Tesco's (Case D) expansion process in China [In.2.3].

Tesco entered China in 2004 much later than Wal-Mart, Carrefour, and Metro. By that time, not only had most of restrictions in the retail sector been removed following China's WTO accession [Ex.1], but other retail giants such as Wal-Mart, Carrefour, and Metro had gained experience in China's market. Tesco therefore had the chance to experience more the advantages of foreign retail firms' operations in China rather than the disadvantages that had been experienced by some other foreign retailers.

Decision-makers in all the cases studied, including Chinese management teams who provide advice for firms' expansion process, are deeply experienced in the retail sector in the global market and/or in the Chinese market [In.2.2]. Most decision-makers are highly educated [In.2.4], or they have taken the education provided within the firms for particular roles they have taken on [In.2.4].

6.2.4 Firm-specific factors (emerging themes 1 and 3 to 6)

This category includes emerging themes 1, 3, 4, 5, and 6: firms' internal commercial agreement, business networking, investigation and research, localized management team, and degree of localization.

6.2.4.1 Firms' internal commercial agreement (Fsf.1: emerging theme 1)

The influence of firms' internal commercial agreements [Fsf.1] applies to those firms which had the special cases. For example, German retailer Metro signed an internal commercial agreement [Fsf.1] with the Netherlands firm Makro, and both parties agreed that wherever Makro opened stores, Metro would not open stores in the same area and vice versa. Because of this agreement, the expansion process of Metro Group (Case C) in China was restricted during the research period, and the firm had to expand carefully and was not able to open stores in the cities where Makro was operating.

This particular case was not applicable to all the retailers when this study was conducted. It happened between Metro and Makro because in Germany these two firms cooperated and even became one firm, particularly after Makro European stores were sold to Metro in 1997. Although Makro is still operating separately from Metro in Asia, including China, both German concept based firms have been avoiding direct competition (Makro.co.za, 2008). Due to this special relationship and in order to avoid internal competition in China, both firms had this internal commercial agreement [Fsf.1], which has influenced Metro's expansion process in China.

6.2.4.2 *Business networking (Fsf.2: emerging theme 3)*

Business networking [Fsf.2] has helped international retailers' success in other global markets. It is a particularly important factor influencing the expansion process of foreign retailers in China. As China is a vast market, it cannot be seen as only one single market due to different cultures in different regions [Lo.4]. Local government policies [Ex.3] can be distinctive among different cities and provinces. Understanding local culture and government policies is vital for the foreign retailer expansion process. Business networking [Fsf.2] helps foreign retailers to understand local culture [Lo.4] and deal with local governments [Ex.3]; it therefore significantly influences foreign retailers' expansion process in China.

The *guanxi* network [Fsf.2] is still a barrier between foreign retailers and Chinese governments [Ex.2 and Ex.3]. Foreign retail firms who have more international experience [In.1.3] in the Asian market deal with *guanxi* networks better (Cases B and D). There are also positive aspects to not being involved in a *guanxi* network. 'Wal-Mart maintains fair competition for suppliers, and they do not accept any bribes at all and they do not charge much display or season fees' (Senior Manager, Fujian Jiujiuwang Food Co. Ltd.).

6.2.4.3 *Investigation and research (Fsf.3: emerging theme 4)*

Before foreign retailers expand into different areas in China, investigation and research [Fsf.3] is a crucial activity that helps foreign retailers to understand different cultures [Lo.4], and local and central governmental policies [Ex.3 and Ex.2]. Foreign retail firms with rich international experience spent significant time researching the market (city, province, or region) before their expansion (Cases A, C, and D). As China is a collection of markets, investigation and research [Fsf.3] can be very important before a foreign retail firm enters each different city, province, or region in the Chinese market.

6.2.4.4 *Localized management team (Fsf.4: emerging theme 5)*

Localized management teams [Fsf.4] have played important roles for the expansion process of foreign retailers in China according to Cases A, D, and E. The document data analysis on Case B and C also provided evidence that the local management team [Fsf.4] significantly contributes to these foreign retailers' expansion in China. Due to the psychic distance [Ps.] between China and other countries, local partners, managers, and employees have greatly helped foreign retailers to

understand central and local government policies [Ex.2 and Ex.3], business networking [Fsf.2], and social and cultural issues [Lo.3 and Lo.4] in local areas. All these factors influence the expansion process of foreign retailers in China.

6.2.4.5 Degree of localization (Fsf.5: emerging theme 6)

According to all the cases studied, the degree of localization [Fsf.5] directly influences the expansion process of foreign retailers. In particular, a higher level of localization [Fsf.5] can shorten the psychic distance [Ps.] between China and foreign countries and help foreign retail firms to better interpret the external environment [Ex.] and more efficiently utilize a firm's internal competencies [In.] to make better location choices [Lo.].

6.2.5 Psychic distance identification (Ps.)

Psychic distance [Ps.] was neglected at the early stage of foreign retail firm expansion in China because of a lack of the knowledge in the market, but it is gradually being recognized as a significant factor that foreign retailers need to deal with when operating in China's market [Cases A, C, and E]. Though firms tend to keep their own culture [Ps.1] and management style [Ps.2], they need to adjust psychic distance [Ps.] effectively in order to adapt to the Chinese retail environment. Firms with more international experience tended to deal with psychic distance [Ps.] better and expand more quickly than other rivals (Cases B and D).

6.2.6 Location choices identification (Lo.)

According to all the cases studied, firms' expansion in China is related to local political issues [Lo.1], economic conditions [Lo.2], social issues [Lo.3], and cultural issues [Lo.4].

6.2.6.1 Political issues (Lo.1)

In order to follow central government policies [Ex.2] and laws and regulations [Ex.4], foreign retail firms may need to seek support and preferential benefits from local governments [Ex.3], which are all related to political issues in terms of government officials' attitudes to particular firms' expansion. Normally, foreign firms should have close economic and political contexts in the locations where they are operating. Local governments [Ex.3] can strongly influence the expansion process of foreign retailers in different regions due to the authoritative power they

have (Cases A, B, C, D, and E). Chinese local governments [Ex.3] may have their own regulations as well as flexibilities based on their own local economy environment.

Support from local governments [Ex.3] significantly encouraged the expansion process of foreign retailers. For example, Wal-Mart opened its Chinese headquarters in Shenzhen, and then the firm continuously opened stores in the Shenzhen area to increase its market share. Carrefour opened its first store in Shanghai and then expanded in the Shanghai area after that. All the case studies provided evidence that dealing with local governments [Ex.3] and establishing local partnerships [Fsf.4] play important roles in the process of foreign retailer expansion. For instance, Carrefour has been trying to keep excellent partnerships with local retailers, which is one of the main contributions to its success in China.

6.2.6.2 Economic conditions (Lo.2)

Economic conditions [Lo.2] are considered very seriously when firms make location choices (Cases A, B, and C). In order to achieve good economic growth, most firms opened stores in well-developed regions, such as East and South China (Cases A, B, C, and D). Choosing more developed areas was particularly vital when most of the foreign retailers first entered China in the middle of the 1990s. This was because the entire market was not open to foreign retailers and well-developed local economies encouraged and contributed to foreign retailers' growth and expansion. Apart from local government [Ex.3] support, another reason why Wal-Mart (Case A) entered South China and expanded in this area first and Carrefour (Case B) entered into Shanghai and did the same there was due to the fast economic development situations of these areas.

Retailers who went to China's market later could have more options because the general economy was growing [Lo.2] in the whole country. In this case, gaining more market share is becoming even more important than opening stores in particularly strong economic areas. For example, Tesco opened many stores in Northeast China and then it expanded rapidly all over the country. In addition, less developed regions also attracted retail giants from the end of 2004, because, first, all the restrictions were lifted in the retail sector following WTO agreement [Ex.1], second, the Chinese central government announced its 'Go West' policy [Ex.2], and third, with East and South China becoming saturated, retail giants with financial strengths started to open new stores in Northwest, West, and Southwest China, such as Wal-Mart and Carrefour. Many

retailers have also started to occupy second-tier and smaller cities in order to gain more market share in China (Cases A, B, C, and D).

6.2.6.3 Social and cultural issues (Lo.3; Lo.4)

The retail formats Chinese consumers preferred before foreign retailers entered the Chinese market were department stores, open markets, and grocery shops. With economic growth [Lo.2] and improvement in living standards [Lo.3], Western emerging formats such as warehouse clubs, hypermarkets, supermarkets, and discount stores are now welcomed by Chinese consumers. As a collection of markets with the largest population in the world, China has different social and cultural characteristics [Lo.3 and Lo.4] in different provinces and regions. All the cases studied provided evidence that it is very important for foreign retailers to understand social and cultural issues [Lo.3 and Lo.4] for their expansion process.

For example, Wal-Mart (Case A) and Carrefour (Case B) provide special Chinese food to meet customers' needs, which they do not supply anywhere else in the world. These retailers also provide different kinds of food in different parts of China according to the favourites of consumers [Lo.3]. Chinese consumers in different provinces and regions have different tastes. For example, people from Southwest China like spicy food, and people from South China like sweet foods, but those from North China do not like sweet food at all [Lo.3]. In addition, different developing levels in different cities also require retailers to supply different facilities to provide convenience for customers' shopping [Lo.3 and Lo.4]. For example, in more developed cities [Lo.2] like Beijing and Shanghai, more people have cars and also there are tube trains available; retailers may not need to provide bigger spaces for bicycles or provide free minibuses in this area. However, in North China, such as Shenyang, the capital of Liaoning province, cars are not common and there are no tube trains in this big city (during the research period), therefore larger bicycle parking spaces and even minibus services are needed by foreign retailers such as Carrefour and Wal-Mart.

Most of the foreign retailers have also adjusted their location choice strategies in the cities according to the different social and cultural backgrounds [Lo.3 and Lo.4] in different cities in China. There was evidence of foreign retailers' changes and adjustments in location choices not only in terms of which areas of the country they chose, but also in which part(s) of particular cities. For example, Wal-Mart used to locate in the outskirts of cities, but opened two stores in the city centre of Shenyang and one in Changsha city centre in Middle China during

the research period. These changes demonstrate the improvement in thoughtful decisions made by foreign retailers based on the convenience of Chinese consumers.

6.3 Summary of themes identified

A summary of all the factors identified in this study through data analysis is shown in Table 6.9, including factors set up in the propositions and emerging themes.

6.4 Developed new model

According to the results, this study developed a new explanatory model to explain the factors influencing the expansion process of foreign retailers in China's market. The new model is shown in Figure 6.1.

According to the aim of this study, the new developed model mainly focuses on the six factor categories: firms' external environment, country-specific factors, firm-specific factors, firms' internal competencies, psychic distance, and location choices, but not on strategic retail management (in the dotted line). The six identified factor categories and how they influence the expansion process of foreign retailers are explained as follows:

- External environment involves the influence of China's entry into WTO, central governmental policies, local government policies, and laws and regulations.
- Country-specific factors involve the distribution system, competition-driven suburbanization, transportation, and urbanization.
- International competencies explain firms' characteristics involving resource commitments, differential advantages and international experience, and decision-makers' characteristics involving decision-makers' perceptions and attitudes, work experience, leadership delegation, and education level.
- Firm-specific factors involve firms' internal commercial agreement, business networking, investigation and research, localized management team, and degree of localization.
- Psychic distance is explained as the central position of the model and it refers to how the responses of foreign retail firms' culture and management styles to psychic distance influence their expansion process.

Table 6.9 Summary of themes identified

Factors	Categories	Results
External environment [Ex.] (including one emerging theme)	WTO [Ex.1] Governmental policies [Ex.2] Local government policies [Ex.3] Laws and regulations [Ex.4, emerging themes 2]	<ul style="list-style-type: none"> • The WTO played a very important role when China initially joined; however, its role reduced when the new policies were implemented gradually to all retail firms • Government policies played significant roles at the early stage of foreign retailers' expansion, with most firms reaching a similar status; their significance has been reduced though • Local government policies are even more important than government policies to most foreign firms because in certain cases different regions and provinces have their own authorities and power beyond central government control • Laws and regulations involving the procedure of how expansion is regulated have a significant impact on the expansion process of foreign retailers
Country-specific factors (emerging themes)	Distribution system [Csf.1, emerging theme 7] Competition-driven suburbanization [Csf.2, emerging theme 8] Transportation [Csf.3, emerging theme 9] Urbanization [Csf.4, emerging theme 10]	<ul style="list-style-type: none"> • The distribution system is one of the core factors that influences the expansion process of foreign retailers • Suburbanization encouraged foreign retailers to target second-tier and smaller cities to take a greater market share in their expansion process • Transportation improvement increases consumers' expenditure and further contributes to the expansion process of foreign retailers • Urbanization increases the number of customers for foreign retailers and further contributes to their expansion process

(continued)

Table 6.9 Continued

Factors	Categories	Results
Internal competencies [In.]	Firm's characteristics [In.1] Resource commitment [In.1.1] Differential advantage [In.1.2] International experience [In.1.3]	<ul style="list-style-type: none"> • Firms' characteristics are crucial factors that influence the expansion process of foreign retailers <ul style="list-style-type: none"> ◦ Resource commitment is essential; if there is no resource commitment, no foreign firms could expand in China ◦ Differential advantage is one of the necessary features foreign firms must have for competition and expansion ◦ Firms with abundant international experience have more advantages during their expansion process
	Decision-makers' characteristics [In.2]	<ul style="list-style-type: none"> • Decision-makers work in teams in foreign firms, and they are all experienced in the retail sector and most of them are highly educated
	Perceptions and attitudes [In.2.1]	<ul style="list-style-type: none"> ◦ Perceptions and attitudes of managers who are involved in decision-making significantly influence the expansion process of foreign retailers ◦ All the managers who have power on expansion decision-making are very experienced in the retail sector, either in China or other markets
	Work experience [In.2.2]	<ul style="list-style-type: none"> ◦ The leadership approach of foreign retailers influences the level of empowerment to local Chinese managers in the decision-making process; this further influences the speed and progress of the firm's expansion
	Leadership delegation [In.2.3]	<ul style="list-style-type: none"> ◦ Most managers in foreign retailer firms have a high education level; however, all the firms value work experience even more than education level itself
	Education level [In.2.4]	

<p>Firm-specific factors (emerging themes)</p>	<p>Internal agreements [Fsf.1, emerging theme 1] Business networking [Fsf.2, emerging theme 3] Investigation and research [Fsf.3, emerging theme 4] Localized management team [Fsf.4, emerging theme 5] Degree of localization [Fsf.5, emerging theme 6]</p>	<ul style="list-style-type: none"> • Internal commercial agreement influences the expansion process of foreign retailers in China • Business networking particularly between the firm and the local governments is a crucial factor that influences foreign retailer expansion in China • Investigation and research is very important in the expansion process of foreign retailers in China • The localized management team is a crucial factor influencing foreign retailer successful expansion in the long run • The degree of localization has been identified as a significant factor that influences the expansion process of foreign retailers in China
<p>Psychic distance [Ps.]</p>	<p>Psychic distance Culture influence [Ps.1] Management styles [Ps.2]</p>	<ul style="list-style-type: none"> • Psychic distance is an important factor that influences foreign retailer expansion in China, particularly the influence of firms' culture and management styles on their response to psychic distance
<p>Location choices [Lo.]</p>	<p>Political issues [Lo.1] Economic conditions [Lo.2] Social issues [Lo.3] Cultural issues [Lo.4]</p>	<ul style="list-style-type: none"> • Firms' location choices are much influenced by political, economic, social, and cultural characteristics in different local markets in China

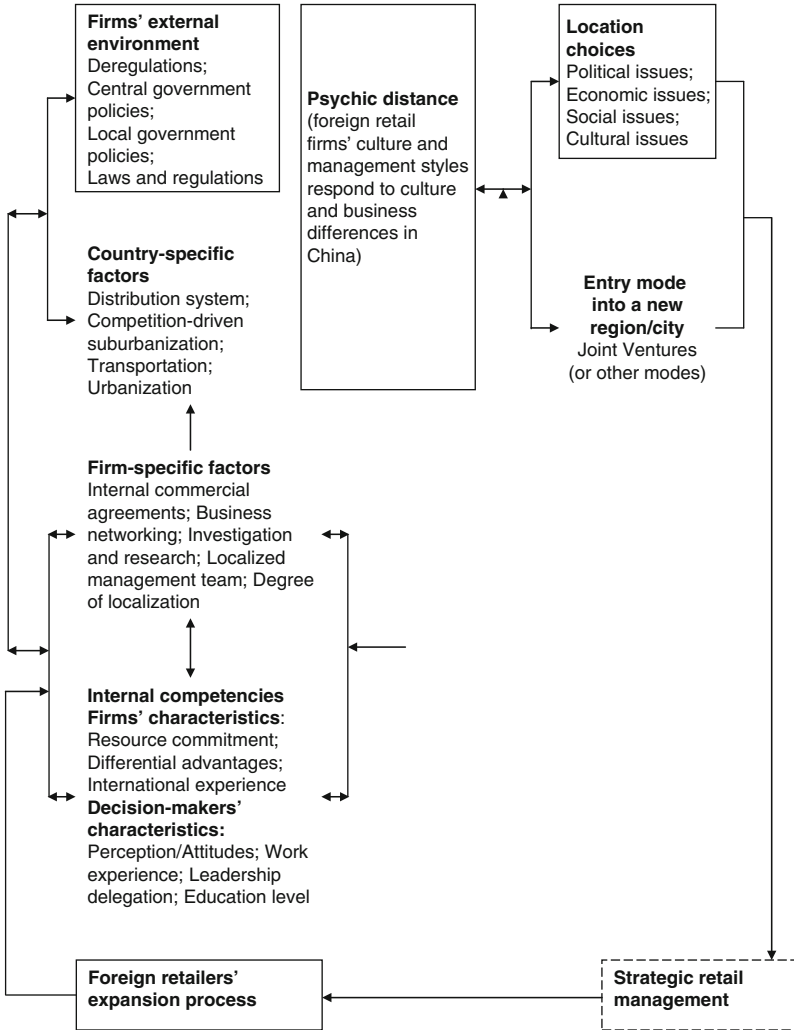


Figure 6.1 Explanatory model of factors influencing the expansion process of foreign retailers (constructed by the author)

- Location choices are explained based on political, economic, social, and cultural issues that influence the expansion process of foreign retailers in China, given China's distinctive regional characteristics.

In addition, entry mode in this model particularly indicates that a JV was the only possible mode that foreign retailers could choose if they entered the Chinese market up to the end of 2004. Most foreign retail firms preferred to sustain the same or similar entry mode into a new region or city during their expansion process in the Chinese market during the research period.

This is a dynamic model based on all six factor categories influencing the expansion process of foreign retailers: Psychic distance is located in the centre of the model. Foreign retail firms' culture and management style response to psychic distance helps to facilitate their internal competencies and firm-specific factors, and further improve their interpretation of external environment and country-specific factors. This interpretation can help the firms to make better location choices. Location choices play significant roles in firms' strategic retail management, which will influence their future expansion process. The expansion process of foreign retailers will in turn influence firms' internal competencies and firm-specific factors through the experience the firms gain. These will further help to reduce psychic distance and improve firms' reaction to the external environment and country-specific factors.

Conclusion

This chapter provided cross-case analysis, presented the results, and developed a new explanatory model. All the results are presented and explained in six main categories, including two categories of emerging themes: external environment, country-specific factors, internal competencies, firm-specific factors, psychic distance, and location choices. The new dynamic model explains the factors which influence the expansion process of foreign retailers in China.

Most of the factors addressed in the propositions are explained as important factors that influence the expansion process of foreign retailers in the Chinese market. However, it is very important to notice that some factors change their level of importance during different time periods. This particularly refers to the factors in external environment, which play more important roles when new government policies are just implemented. When they have been implemented for a certain

period, the importance of these factors reduces. This is particularly reflected upon China's entry into the WTO when central government policies played more important roles in the expansion process of foreign retailers at the earlier stages following the policy implementation than at later stages.

There are some cross-cultural issues that occurred during data collection as mentioned in section 4.8 (Chapter 4), and the interpretation of the data has taken this into account. Managers were a bit conservative when answering questions during interviews, the main reason being the cultural influence and confidentiality considerations; however, a common generalization could be made according to different data collection methods and explanation building data analysis strategies support the newly developed model. The factors in the six main factor categories identified in this study directly influence the expansion process of foreign retail firms in China and the newly applicable model developed in this study contributes to the theory of retail internationalization. Chapter 7 will discuss the implications of this study, clarify research contributions, suggest future research, and draw final conclusions.

7

Discussion and Implications

Introduction

Following on from the cross-case analysis and results presented in Chapter 6, this chapter will first review the research questions, examine the results presented, and discuss how the results answer the research questions. Next, it will discuss research contributions and how the objectives of this study have been achieved. Then, it will discuss the theoretical and managerial implications of this study and analyse the future market. Finally the chapter will demonstrate research limitations and suggest future research before the final conclusions are drawn. The discussion in this chapter is based on the six factor categories identified from the results. In particular, the theoretical implications focus on how the results are related where appropriate to the retail internationalization process literature and international business literature. Managerial implications focus on how existing foreign retailers can expand more effectively in China, from a management practice perspective.

7.1 Review of research questions and summary of key findings

The stated aim of this study is to explain the factors that influence the expansion process of foreign retailers in China during the period between 1995 and 2005. There are three important research questions raised in this study:

- What are the significant factors influencing the expansion process of foreign retailers in China?

- How is the expansion process of foreign retailers influenced by these factors?
- How do the explanations of identified factors contribute to retail internationalization process theory building?

The first question on the significant factors influencing the expansion process of foreign retailers in China was answered following the data analysis, explaining the six factor categories. These include four factor categories with 16 elements set up as propositions derived from the literature review: external environment, internal competencies, psychic distance, and location choices. The other two major factor categories are emerging themes with 10 elements: country-specific and firm-specific factor categories.

The second question on how the expansion process of foreign retailers is influenced by these factors is answered through the results of this study. Data analysis including explanation building analysis and cross-case analysis and results have explained all of the factor categories that were identified.

The answer to the third question on the contribution to retail internationalization process theory building is answered by the new dynamic model provided in Figure 6.1. This model is derived from the explanation theory building process through the multiple case replication design. The model fills in a gap in the international retailing literature by explaining the factors influencing the expansion process of foreign retailers at their post-entry stage. This study enhanced the explanations of the importance of the various factors set up in the propositions, explaining their influences on the expansion process of foreign retailers. When the explanations of these factors are applied to China's market, six out of seven of the propositions needed to be revised, and ten other important themes emerged.

7.2 Significant factors influencing the foreign retailer expansion process

This section discusses the significant factors influencing the expansion process of foreign retailers in China, based on the six factor categories identified.

7.2.1 Identification of external environment

The findings indicate that the key factors influencing the expansion process of foreign retailers in the external environment category

include: China's entry into the WTO, the central government's policies on the retail sector, local government policies regarding taxation, and approval for opening new stores, laws, and regulations.

It has been shown that the influence of trading agreements on retailers can be immediate and dramatic. Findings in this study supported the fact that trade agreements such as NAFTA and the GATT agreement (WTO) have had significant impacts on association members, because opening of the market is associated with lower prices, lower international tariffs, and lower quotas (Alexander, 1997). China's joining the WTO was a significant factor that encouraged foreign retailers' further expansion in the market. Foreign retailers enjoyed more expansion in China after all the restrictions were lifted by the end of 2004. By this time, the Chinese government had removed all the restrictions to fully open the retail sector; foreign retail chains started to be allowed to compete freely against domestic retailers; and most large international retailers which already had a strong presence in major cities in the Chinese market started to slowly penetrate into the second-tier cities even though in these cities domestic retailers are very competitive.

However, it needs to be noted that the findings also indicate that the influence of China's entry into the WTO has been reducing gradually for foreign retailer expansion, because all the retailers have gradually gained the same benefits after the same policies began to apply to the whole Chinese market. This implies that in order to expand effectively in China, foreign retailers must consider other influential factors while benefiting from the deregulation and opening of the market.

The findings on central government policies show a similar result in their importance to the expansion process of foreign retailers in China. The impact of central governmental policies also reduced after these policies had been implemented for a period of time.

The findings indicate that the influence of local government policies on foreign retailers' expansion process is slightly different from the influence of central government policies. Local government policies in China vary. The importance of local government policies to the process of foreign retailer expansion depends on the characteristics of the firm and the decision-makers, based on which firms make appropriate interpretations of local government policies. Some firms consider local policies important only if these policies benefit them, such as the Metro Group (Case C).

For example, Wal-Mart could not open its first store in Shanghai due to local governmental policies, and the firm finally opened its first

store in Shenzhen through a JV agreement under the support of the local government (Chaturvedi, 2006). Wal-Mart had slow expansion in China even with the advantages of capital, advanced distribution experience, and high efficiency, because some local governments did not provide sufficient support. On the one hand, if a foreign retailer strictly follows the central government policies, waiting for the approval of the local governments, then its expansion speed can be very slow, and may face obstacles. On the other hand, some foreign retail firms have taken short-cuts by choosing to have a JV with a local company, which may not really get involved in management decisions. These foreign retailers had the opportunity to expand more rapidly because Chinese local governments always support local firms (Beijing Modern Newspaper, 24 June 2003).

The importance of laws and regulations has been identified as an emerging theme in this study. After decades of post-war communist rule, China had no formal legal system until 1978. Since then China has launched one of the greatest floods of legislation in history. The government structures are quite complex with numerous cities, 23 provinces, five autonomous regions, five centrally administered municipalities, and two special administrative regions (EstudyChinese.com, 2008).

A province or an autonomous region is subdivided into autonomous prefectures, counties, autonomous counties, or cities. Autonomous prefectures are subdivided into counties, autonomous counties, and cities. A county or an autonomous county is subdivided into townships, ethnic townships, and/or towns. Municipalities are directly administered under the central government. Large cities are subdivided into districts and counties. Autonomous regions, autonomous prefectures, and autonomous counties are all ethnic autonomous areas (EstudyChinese.com, 2008). China's administrative divisions and cities are shown in Appendix 7. This complex administrative structure has led to varied interpretation of laws and regulations (Chaturvedi, 2006). Existing legislative gaps, lax enforcement of the law, and political biases have contributed to the weak enforcement of laws and regulations (Daniels *et al.*, 2007). Foreign retailers were not able to expand by choice until 11 December 2004, when China allowed foreign retailers freedom to invest independently. However, by 2005 some retailers like Carrefour had flouted the norms to expand rapidly with the government finding it impossible to contain these violations (Chaturvedi, 2006). The data evidence of this study indicates that Carrefour has started to adhere more strictly to the laws and regulations for their future expansion (Senior Manager, Carrefour, North China).

7.2.2 Role of country-specific factors

All the country-specific factors were emerging themes. These factors include the distribution system, competition-driven suburbanization, transportation, and urbanization.

Yoshino (1966) argues that the distribution system of a particular market is one of the key factors that influence retailing success. This factor has been neglected in the recent literature because so much of the research over the past two decades has concentrated on retailing in developed markets. The document data provide evidence that the distribution system significantly influences the expansion process of foreign retailers in China. By mid-2005, foreign investors were allowed to set up either a new, stand-alone foreign-invested commercial enterprise or apply to expand the business scope of existing foreign-invested enterprises in order to acquire trading and distribution rights (China Business Review, 2005).

However, China's current infrastructure has limited the spread of foreign retailers' distribution systems and further affected their expansion process, supporting the findings of Yeung (2003). With the improvement in infrastructure based on both the development of the Chinese economy and the contribution of foreign investment, more efficient distribution systems are expected to be established. For example, with the growth of Wal-Mart in China and the development of China's commerce industry, the development of an 'integrated logistics' system will ensure that the company will continue to bring new innovations and advanced technologies to China (Liu, 2001). How a distribution system further influences the retail internationalization process in China will be given attention in future research.

Competition-driven suburbanization is becoming an important factor that influences foreign retailer expansion. Competitors' moves are more important to retailers than to manufacturers because the nature of retailing requires retailers to be geographically close to their customers. This emphasizes the importance of location in a city, a region, and a country to retailers. Any delay in expansion into a market may lead to loss of profitable opportunities (Pellegrini, 1991).

During the research period, major foreign retailers started to expand into tier 2, smaller cities and suburban areas in China particularly after China's entry into the WTO. This demonstrates these foreign retailers' market commitment to China after they gained market experience. Although town centre retailing in China still plays an important role in consumers' shopping activities, the suburbanization of residents, the prevalence of new retailing formats, and the changes in consumers'

lifestyles have contributed to the development of retail suburbanization and encouraged retailers to move to smaller cities and suburban areas (Chai *et al.*, 2007). With commercial facilities becoming more suburbanized, foreign retailers are more interested in opening stores in smaller cities and suburban areas, and the expansion process of foreign retailers is greatly influenced by competition-driven suburbanization.

The success of the hypermarket in Europe was based on the significant development of road transportation such as motorways and cars during the late 1960s and the 1970s (Dupuis and Prime, 1996). Transportation is still an issue for retailing in China. Traditional food shopping has not been affected by electronic commerce. Therefore, the transportation of goods to sell in stores and after purchase, that is, the transportation of goods from stores to consumers' homes, has an important influence on the process of foreign retailer expansion. During the expansion process, all the retailers studied prefer to choose locations near their previous stores to expand into so that they are able to connect to an established transportation and distribution system.

Simultaneously, due to the general economic development in China, retailers benefit from improved transportation systems. The increase in the use of private automobiles has also contributed to the growth of retail stores generally and influences the expansion process of foreign retailers. The number of cars per 100 households increased from 0.3 at the end of 1998 to 4.3 by 2006 (China Chain Store Almanac, 2007) and this number was 18 per cent in Beijing (the capital of China) and 5 per cent in Shanghai by 2006 (MINTEL, 2008b). Particular notice should be given to the influence of further improvement in the transportation system countrywide on the process of further foreign retailer expansion in China in future research.

Urbanization cannot be neglected as one of the important factors influencing the expansion process of foreign retailers in China. China's urban population has increased from 29 per cent in 1995 to 42.7 per cent in 2005. Figure 7.1 shows the increasing trends of urban population as a percentage of the total population in China in the research period between 1995 and 2005 (Euromonitor, 2006b).

According to Figure 7.1, urban population as a share of total population increased between 1995 and 2005. Urbanization has generated changes in consumer's lifestyles, increasing the demand for modern retail formats that foreign retailers can offer. Urbanization is therefore an important factor that influences the process of foreign retailer expansion. The factors that emerged from the document data analysis, including competition-driven suburbanization, transportation, and

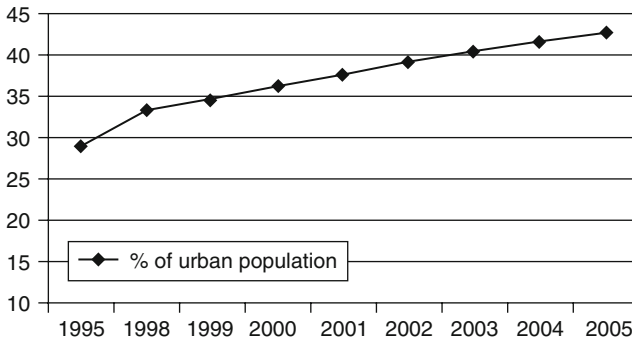


Figure 7.1 Changes in percentage of urban population from 1995 to 2005
Source: Euromonitor, 2006.

urbanization, can be applied to further study of foreign retailer expansion in other emerging markets.

7.2.3 Identification of internal competencies

In this section two issues will be discussed: firms' characteristics and decision-makers' characteristics. Vida and Fairhurst (1998) argue that firms' and decision-makers' characteristics, together with the external environment, can serve as promoters or inhibitors for whether a firm will initiate international activities, or maintain, increase, or decrease its present level of international retail involvement. The findings of this study support the view that these characteristics importantly influence the expansion process of foreign retail firms in China.

Firms' characteristics such as resource commitment, differential advantages, and international experience are essential factors influencing their international expansion process. However, it needs to be noted that resource commitment to internationalization may not be enough to help a foreign retail firm expand efficiently in China or other emerging markets. Therefore, how to make the most of firms' resources is becoming more important for foreign retailers that have the resources to compete with their rivals in the expansion process. In this case, differential advantages and firms' international experience are becoming very influential.

This study mainly considers four important factors to explain the influence of decision-makers' characteristics on their expansion process: perceptions and attitudes, work experience, leadership delegation, and education level. The decision-makers in the companies studied work in teams. Therefore, decision-makers' characteristics can represent the

characteristics of the firms. Team-work in the studied firms plays an important role in decision-making about expansion. This ensures that if anybody leaves the team, the company will still run as normal.

Top managers in the investigated retail firms are all highly experienced in the retail sector in their home countries or in an international market. Some of them have had abundant professional experience in China. Most of them are well educated with higher education qualifications. However, the evidence of all the cases studied demonstrate that decision-makers' education level alone is not enough to benefit firms' expansion process, but their professional experience and learning significantly influence firms' expansion process in China.

Foreign retailers tend to choose managers from home countries to be in charge of their operations in China (Wang, 2003). These foreign managers are the main decision-makers in almost all the foreign retail firms studied. They tend to behave in similar ways to how they work in their home countries. Some foreign retailers tend to keep their own culture and managers tend to retain their own leadership style when operating in China, such as Cases A, C, and E.

However, at times some home market approaches or leadership styles may not be suitable in China due to differences in national culture. Managers' adopted management styles and attitudes significantly influence the foreign retailer expansion process. The retail firms studied provided strong evidence that the foreign retail firms that adopted flexible management styles and attitudes such as Carrefour (Case B) and Tesco (Case D) expanded more efficiently than firms that adopted conservative management style and attitudes such as Wal-Mart (Case A) and Metro (Case C).

Chinese managers in foreign retail firms are not really final decision-makers in the expansion process. However, their attitudes and contribution are becoming more and more important. This is because foreign retailers gain more experience operating in China and realize that local managers more fully understand Chinese culture and management style, and are able to deal better with local government. The role of Chinese managers in the process of foreign retailer expansion decision-making can increase in the long term.

7.2.4 Role of firm-specific factors

All the firm-specific factors are emerging themes identified in this study. These factors include firms' internal commercial agreements, business networking, investigation and research, localized management team, and degree of localization. Internal commercial agreements involve two

firms which operate jointly in one country but separately in another country. Firms' internal agreements are a special type of commercial agreement between firms under which those participating in the arrangement agree not to compete in specified markets or sectors. This kind of agreement can lead to firms' slow expansion. For example, the German firm Metro and the Dutch firm Makro were merged in 1997 in Germany. However, they operate separately in China. Metro signed an internal agreement with Makro, agreeing that if one of the firms opens a store in a city, another should not do so. This has restricted the speed of the expansion process of Metro in China (Case C).

Business networking was addressed as one of the important factors influencing the expansion process of foreign retailers in China. For the particular case of China, a collection of markets, networking with central and local governments is very important. The case studies of Wal-Mart (Case A), Carrefour (Case B), and Tesco (Case C) all provided evidence that having harmonious relationships with both central and local government is important for expansion. Although Tesco entered China more recently in 2004, it has adapted to the local market quickly by empowering local managers, who know how to deal with local governments.

Internationalization knowledge is important for firm internationalization, and foreign business knowledge is strongly related to internationalization knowledge (Hadley and Wilson, 2003). Business networking therefore can be extensively investigated beyond the firms' relationships with governments and also focus on foreign firms' development of cooperative relationships with customers, suppliers, and other business partners. Relevant investigation should be carried in China or other emerging markets in further research.

Another emerging theme indicates that investigation and research is important for the expansion process of foreign retailers. Foreign retailers do careful investigation and research before they expand into a new city or region. The investigation that has been done by the cases studied mainly focused on the following factors: government attitudes towards the new entrant in the area (Case A); the suitability for opening a store in a particularly location (Case A); competitors' positions and strategies (Case C); and business opportunities (Case D).

The findings also indicate that in order to understand the local culture and business environment, foreign retailers use a localized management team to better deal with local management issues, which are important for retailer expansion in a foreign market. This supports the findings of Yoshino (1966), Hollander (1970), Bianchi (2009), and Eren-Erdogmus

et al. (2010). Multinational enterprises may pursue localized operational strategies and human resource management can be hybridized in Sino-foreign JVs (Chen and Wilson, 2003). In accordance with Chinese law, before November 2004, foreign retailers had to have a domestic partner to do business in China, as mentioned in Chapter 2. The partnership with a local company was not just an empty gesture, however.

The Chinese partner provided a vital localized management team. The important role that a localized management team can play has been increasingly recognized in recent years after foreign retailers began to understand that it is important to acknowledge retail-related cultural and business issues in each region of China through local employees. All of the foreign managers interviewed for this study acknowledged that the local management team provided by the local JV partner is significant in introducing the foreign partner to the local culture. All the cases studied made an effort in training a localized management team and empowering local Chinese managers in the decision-making process for expansion. For example, 'Wal-Mart has announced that given its good co-operation with its Chinese partners, it would not seek to set up a solely-owned company in a short period of time' (Liu, 2005a). Alternative modes may emerge eventually, but a localized management team will continue to be a core element influencing the expansion process of foreign retailers in China.

The degree of localization is found to influence the expansion process of foreign retailers in China. Localization can be seen as a process of converting applications to operate in a specific cultural environment (Weir and Lepouras, 2001). Facing significant cultural differences and operating in a large country with different regional characteristics, the degree of localization has an important influence on foreign retail firms' expansion process. Foreign retailers that are more localized expanded more effectively (Cases B and D). The importance of localization has been noted in all the cases studied, and they mainly focus on understanding local customers' needs, local government policies, and suppliers.

The JV mode has also played an important role in foreign retailers' learning about localization. Foreign retailers benefit from having local partners. Even though foreign retailers are free to apply other business modes from the end of 2004, all the cases studied still preferred to operate as JVs when the data were collected through to the end of 2005. However, when the researcher did member checks on the data collected, it was found that Tesco had bought 96 per cent of the company's shares by the end of 2006, compared to holding 50 per cent when it first

entered China in late 2004. Further research should investigate what factors influence the changes, if any, in ownership by foreign retailers in China.

However, it also needs to be noticed that some of the cases studied provided evidence that localization is a process, and it therefore takes time for a foreign firm to become fully localized. For example, Wal-Mart (Case A) has taken gradual steps for localizing in customer services, and it did not consider localization when dealing with suppliers at the beginning of its operation in China. Carrefour (Case B) adopted effective localization strategies particularly for customer services and location choices, and it therefore has been expanding very efficiently. Metro (Case C) also takes localization to be a steady process, while Tesco (Case D) significantly empowers local managers in the expansion decision-making process. From the evidence that Carrefour (Case B) and Tesco (Case D) have expanded more efficiently in China compared to other foreign retailers, it can be seen that the degree of localization has played an important role. Future research should be directed to the question of how the changing attitudes to localization in different foreign retail firms influence these firms' expansion process.

7.2.5 Identification of psychic distance

The Nordic model aims to explain the pattern and mode of establishing marketing-oriented operations in a new international market (Johanson and Vahlne, 1990). The model indicates that there are two patterns in the internationalization of a firm. One is that firms' engagement in the development of specific countries' markets is undertaken in conjunction with an established chain. This engagement indicates the company's commitment of resources to the market, and the current business activities would depend on the experience gained about the market. The second pattern indicated by the Nordic model concerns the notion of psychic distance, and explains the firms' expansion process by how well they deal with psychic distance. Psychic distance has been discussed in Chapter 3 by setting up proposition 6. With foreign retailers becoming more internationalized in China and learning more about the market, psychic distance between their home markets and China is reducing.

The factors analysed in the psychic distance category are adopted from the definition of psychic distance according to Evans *et al.* (2000), which refers to the distance between the home market and a foreign market, derived from the perception and understanding of cultural and business differences. The reason why this definition was chosen has been discussed in Chapter 3. This study operationalizes psychic

distance by two main indicators: the differences between culture as well as management styles in foreign retailers' home countries and China. Since the internationalization process is a dynamic learning process, not only do managers have to accumulate information, but also they must learn how to interpret it correctly so that they are able to generate a better understanding of the market and adapt to it (O'Grady and Lane, 1996).

There are significant cultural values that lead to different management practices between China and other countries. In comparison with the 'ruling by law' (*fa zhi*) which is common in the West, China is perceived as relying on 'ruling by men' (*ren zhi*). This has certain implications for Chinese management decision-making: top decision-makers have the final authority and their decisions are unquestionable. There is a lack of standard policies or procedures regarding decision-making. Managers seek to establish *guanxi* to secure business deals and settle problems through personal interactions instead of following business regulations. Business contracts are specified in legal terms, but are implemented on the basis of personal trust and relationships between the parties involved (Wang *et al.*, 2005). The predominant norm in China is that legal rights are derived from the power of an individual. This is manifested in the broad authority of political officials. Because of the power of key individuals, it was not easy for foreign investors to open a wholly-owned foreign enterprise as they needed time to establish strong relationships with key individuals (Daniels *et al.*, 2007).

This study found that three out of five firms preferred and tried to keep their own culture and management style when they entered the Chinese market (Cases A, C and E). In comparison, Cases B and D tended to be much more localized and flexible, and this is one of the reasons why these two firms expanded more efficiently. How a foreign retailer's culture and management styles interacted with its retail businesses also contributed to the conservative leadership style adopted by Cases A, C, and E or the more flexible leadership style adopted by Cases B and D. Transferring home management techniques and values is hard where the operating environment is very dissimilar to that of the home country (Alpander, 1976).

Companies that kept their own characteristics experienced particular difficulties that led to inefficiency when expanding in China. The difficulties identified in this research include problems with the understanding of Chinese culture (Cases A and C); the special networking and relationship characteristics in doing business in China (Case A); the effective ways of dealing with the central and local governments

(Cases A and C); the understanding of Chinese customers, their needs, and demands on customer services (Cases A and C); and being too conservative on expansion (Cases A, C, and E). Obviously, the very different business and cultural background between the foreign retailers' home countries and China contributes to a greater psychic distance for those firms operating in China.

In particular, foreign managers experienced difficulties with the positive and negative sides of the *guanxi* network. *Guanxi* is a critical means of operating business in China (Buttery and Leung, 1998). For the last few centuries, any business in the Chinese business world, local or foreign, inevitably has faced *guanxi* dynamics (Luo, 1997). Some have regarded the Chinese management system as management of interpersonal relationships (Su and Littlefield, 2001). Others noted that *guanxi* is a key determinant for organizational performance or the life blood of the Chinese business community (Luo, 1997).

Guanxi is an important aspect of psychic distance experienced by all the foreign retailers operating in China. Business development or expansion in any context is likely to be very difficult or slow if local cultural expectations are not met. Not following appropriate practices with regard to *guanxi* in China is rather like a Chinese company trying to expand local operations in the USA or UK without joining the local Chamber of Commerce and refusing to have any involvement with initiatives such as local community development or charitable work. Many foreign companies in China, like Case A, viewed gifts in the *guanxi* network as offering bribes, which caused embarrassment to their own Chinese colleagues when dealing with local authorities. *Guanxi* has been a sensitive and difficult aspect of Chinese culture that foreign firms have struggled to reconcile with their own cultural assumptions.

Some businesses have developed a way to condone the practice of gift-giving and providing entertainment for potential business partners including governments. At times, gifts and entertainment are provided with an intention of securing *guanxi* and creating the maintenance of a quid pro quo relationship (Sternquist and Chen, 2006). For example, Carrefour has gained rapid expansion and growth in China by having excellent networking and relationships with all of its partners and local governments. Tesco has also achieved steady and smooth growth by fair judgement of the *guanxi* network in China. These retailers have established and developed good relationships and *guanxi* networks which have benefited their expansion process. Further research should analyse how foreign retailers adjust their understanding to psychic distance and how they deal with the *guanxi* network in the retail business context,

and how these factors influence foreign retail firms' expansion and performance.

The internationalization process can be much faster in the firms that started latest (Johanson and Wiedersheim-Paul, 1975). Foreign retail firms that entered China later than others learned from existing foreign retailers' experience, particularly through investigation and research before the entry. For example, since Tesco entered China in 2004, it has been localizing smoothly. The firm not only empowers Chinese managers; it has also kept for its business in China the name Hymall, Tesco's JV partner, to retain a local image for Chinese consumers. At the same time, the company's service and management skills have significantly improved. Tesco prefers to take a more 'local' than 'global' approach, which is the main reason why the firm could expand in China by up to 50 stores in just one year. Wal-Mart, which tended to retain its own corporate culture, is also becoming more flexible through learning. For example, it has started to open stores in busy city centres instead of on the outskirts, because it recognized that not many Chinese consumers drive cars. Wal-Mart's expansion pattern has changed to become more localized, which will have an important impact on its expansion process in the future.

The internationalization of the firm should be interpreted as a learning process (Johanson and Vahlne, 1977). Through this learning process, firms will improve their internal competencies and firm-specific factors so that psychic distance can be gradually reduced. According to all the cases studied, foreign retail firms have begun to be concerned about psychic distance, focusing on bringing together the Chinese and home country culture and management styles within the firm and applying special strategies to deal with the differences.

7.2.6 Identification of location choices

Political and economic conditions and social and cultural issues (Yoshino, 1966; Hollander, 1970; Dibb, 1996; Dupuis and Prime, 1996) should be taken into account during the retailer internationalization process. The findings of this study support this argument. For example, it has been found that making an appropriate location choice is very important for foreign retailers' expansion in China. In order to do so, foreign retail firms not only need to obey governmental policies, laws, and regulations as discussed earlier in this chapter, they also need to consider relevant political, economic, social, and cultural issues. Foreign retailers need to accumulate such experience to make more suitable location choices. Experience is not only related to costs, but is also a

factor in the selection of the set of locations that are evaluated by decision-makers (Benito and Gripsrud, 1992).

Political influence on the foreign retailers' expansion process comes from both the local and central government and the relationships between the firm and the local and central government. The decision about where to select for their first internal expansion in China requires careful consideration and preparation. Local politics is one of the main factors that influence foreign retailers' first entry and future expansion decisions. The selection of new regions for internal expansion needs to consider the actions that local governments take to protect their local businesses. Foreign retailers prefer to open stores where they will have local support. These firms' activities have been heavily concentrated in the Eastern coastal region, where large and wealthy markets are located, and where they have received significant local support such as beneficial taxation.

By 1996, 70 per cent of the foreign retailers' activity was concentrated in China's two largest cities, Shanghai and Beijing. Of the two, Shanghai was preferred over Beijing. Beijing was less favoured by large international retailers and overseas Chinese retailers than Shanghai and other cities. For instance, Wal-Mart (Case A) landed in Shenzhen (after it could not open a store in Shanghai as planned for confidential reasons) and Metro (Case C) and Tesco (Case D) started in Shanghai. It is unclear why Beijing was less favoured by large international retailers and overseas Chinese retailers than Shanghai though Carrefour (Case B) did open its first store in Beijing in 1995 (LSA, 1995). Wang (2003) provided one possible explanation that it could be because foreign retailers' early entry into China in the late 1990s was not approved by the central government and these firms tried to avoid setting up their first operations in Beijing to avoid close watch by the state government. The data collected in this study from the CCFA help to explain why the answer is ambiguous:

'Most foreign retail firms have had their initial plan of how to expand in China. However, foreign retailers sometimes cannot follow their own expansion strategies because they need to obey the government policies. A good example is that Wal-Mart did not go to Shanghai to open its first store but it went to Shenzhen instead, which does not mean that the firm did not want to open its first store in Shanghai; there were some other reasons that made difficulties for the firm's entry into Shanghai. These reasons are secret to outsiders' (Senior Manager B, CCFA).

Another political issue that influences the process of foreign retailer expansion is the 'Go West' plan of the central government. In order to keep a good relationship with the central government, most foreign retail firms responded positively to the central government's intentions. For example, foreign retail giants responded to the government's 'Go West' plan when the Chinese central government announced that all the country's economy and businesses should support and develop West China. Several foreign retailers have opened stores (Cases A, B, and C) and others have plans to open stores in West China.

In addition, the long-running conflict between central and local government authorities in China is an important political factor that influences foreign retailer expansion. Due to the vastness of the country, local officials can hold significant influence because they can swing support of the smallest villages to the larger cities to help build the power base of the larger cities in their dealings with the central government. The power struggle between the centre and the provinces is a traditional phenomenon in China, demonstrated by the saying, 'The mightiest dragon cannot crush the local snake'. Although the central government in Beijing may appear all-powerful to foreign investors, its practical reach is limited because of the politics of its bureaucracy and strong local authority (Daniels *et al.*, 2007).

It is vital for foreign retailers to judge and deal effectively with local governments that will be able to support their expansion into local markets. For example, the main reason why Wal-Mart eventually chose Shenzhen to open its first store was because of the significant taxation benefits granted by the local government; this benefit covered all 11 Wal-Mart stores in the Shenzhen area during the research period. Foreign investors have often placed the blame for their slow progress on a bureaucratic system that relies on politics rather than statute to regulate their activities (Daniels *et al.*, 2007). In order to improve and keep good relationships with both central and local governments, choosing good local partners is beneficial and important for foreign retailers' future growth. Local partners are more likely to have advantages when negotiating with both local and national government for store locations (Wang and Li, 2006).

The biggest attraction of China to foreign retailers is economic growth. However, different parts of China are developing in an unbalanced way. As commercial enterprises, foreign retailers chose the fastest growing areas to enter and expand. South and East China were the most popular areas in 1995 for the foreign retail giants to begin their move

into China's market. They then expanded into similarly growing areas. With the biggest markets quickly becoming saturated, foreign retailers began to move to the growing areas in the North, Northeast, Middle, and then in West China. In order to increase their total share of the market, foreign retail giants have started to analyse lower-tier cities and cities in the western part of China to identify suitable locations for further expansion.

For example, by the end of 2005, Carrefour had already opened stores in Urumqi (Xinjiang province, West China) and Guiyang (Guizhou province, Southwest China). Wal-Mart had two stores in Changsha (the capital of Hunan province, Middle China) and was planning to open stores in Mianyang (Sichuan province, Southwest China), Wuhu (Anhui province, Middle China), Yuxi (Guizhou province, Southwest China), and Yuyang (Hunan province, Middle China). Metro also had three stores in Hunan province. Heiwado was looking at opportunities to expand near Changsha.

China's social and cultural issues also significantly influence the expansion process of foreign retailers. These issues involve consumers' preferences, needs, tastes, lifestyles, and cultural influence on buying patterns. As foreign retailers have gained greater understanding of consumer preferences and lifestyles, their specific locational choices in one particular city have shifted. Early entrants tended to locate on the urban fringe, close to motorways in the way that is similar to their locations in home countries. For example, Wal-Mart in Shenzhen and Metro in Shanghai are located near motorways. Foreign retailers began to realize that the low level of car ownership in China made it difficult to attract the large numbers of shoppers essential to support their large stores (Wang, 2003). They began to open their new stores in residential areas or on major bus routes. Carrefour has been doing well because most of its stores have been located on the main bus routes (see Appendix 5). Wal-Mart opened its new stores in the walking streets located in the shopping districts of Shenyang city (see Appendix 5), Liaoning province, and similar locations in other regions such as in Middle China by 2005. The provision of free bus services from affluent suburban residential areas to their stores has been provided by some foreign retailers, such as Wal-Mart and Carrefour.

In addition, foreign retailers need to understand different consumers' needs in different parts of China based on their socio-cultural background. Understanding local customers' needs and tastes in different parts of China is complex because different parts of China have different cultures, and culture plays an important role in

determining buying patterns (Dibb, 1996). For example, Carrefour sells the same sorts of products with different qualities at different prices in Shanghai, where the market is more advanced, and Middle and West China, where the market is less mature. Chinese people from East, North, South, and West China prefer different types of food with distinctive tastes, which must be taken into account by food retailers (Cases B and C).

7.3 Research contributions

This study makes a contribution to knowledge by providing a better understanding of the expansion process of foreign retailers at the post-entry stage of retail internationalization, which should help to develop the body of knowledge in the theory of firm internationalization. It also provides significant managerial implications for foreign retailers to operate successfully in an emerging market.

None of the frameworks in the previous literature is sufficiently complete, consistent, or able to be used on its own to explain the expansion phenomena of foreign retailers. This study integrates three interconnected frameworks as the main theoretical basis to set up propositions in order to answer the research questions. The major contribution of this study consists of the newly developed model. It has integrated and holistic features, explaining factors influencing the expansion process of foreign retailers. The new model, presented by six factor categories, provides a fundamental platform for the future research on relevant activities at foreign retailers' post-entry stage or beyond.

The explanations of the new model not only indicate how macro environmental changes and country-specific factors influence the expansion process of foreign retailers, but also indicate the ways foreign retailers should respond to these factors, by improving their internal competencies and firm-specific factors to make better location choices. The study identifies psychic distance as playing a central role in how foreign retailers facilitate their internal competencies to interpret external factors and how they make better location choices. This learning process will further strengthen the internal competencies of foreign retail firms. This explanatory model provides a consistent link between previous literature, which mostly focused on foreign retailers' pre-entry and entry stages of internationalization, and future research, which may focus on foreign retailers' other activities at the post-entry stage of internationalization or beyond, such as assimilation, overall performance, or exit.

7.4 Achieving objectives

The first objective of this study was to identify the factors that influence the expansion process of foreign retailers in China. This objective was processed through the literature review, identifying the research gap, data collection, and analysis; it was achieved after the results were identified. The following six factor categories were identified as influencing the expansion process of foreign retailers in China: external environment; country-specific factors; internal competencies; firm-specific factors; psychic distance; and location choices.

The second objective was to identify how and why the factors identified influence the process of foreign retailer expansion in China. All factors addressed in the propositions were found to be at the level of 'important' or above, in other words, all the factors identified in the first objective are important or very important for a foreign retail firm's expansion process. However, the study also discovered that the importance levels of these factors change over the time period during the expansion process. The importance levels of factors under the external environment [Ex.] category normally reduce and the importance levels of internal competencies [In.] normally increase over time. Distinctively, two emerging factor categories involving ten emerging themes have been identified in this study, including country-specific and firm-specific factors.

The third objective was to draw cross-case conclusions to develop a suitable model to explain the factors that influence the expansion process of foreign retailers. According to the results, a newly developed model has been developed, consisting of all the factors identified as shown in Figure 6.1. This model provides factors and relationships between these factors that foreign retailers should consider when expanding in an emerging market. The model also serves as the main contribution of this study to existing knowledge.

7.5 Theoretical implications

From a theoretical perspective, the most important point of this study is its focus on the expansion process of foreign retailers at their post-entry stage of internationalization, through explaining the factors that influence their expansion process in an emerging market and in a transitional economy (China, between the traditional period of 1995 and 2005).

The results of this study have been presented in Figure 6.1. The findings also indicate that the importance levels of some factors

influencing the process of foreign retailer expansion change over time. There are two explanations for this. First, governmental policies are normally more important when they are first announced and/or implemented. The importance of government policies reduces over time after these policies have been implemented for a certain period and companies find ways of dealing with them. Second, foreign retailers' post-entry activities are adjusted according to the psychic distance between their home markets and the host market, which is influenced by foreign retailers' experience and learning. During the research period, foreign retailers adjusted their expansion process according to their interpretation and understanding of the external environment and country-specific factors in China.

With foreign retailers' experience and learning increasing, the psychic distance between their home countries and China has been reduced. The foreign retailers are more able to efficiently facilitate their internal competencies and firm-specific factors during their expansion process so that they can make better location choices. It needs to be noted that it is a gradual process for foreign retail firms to reduce the psychic distance through accumulating operational experience. This is one of the major reasons why some firms had a slower expansion process in China, such as Cases A and C, while others with richer international experience had a speedier expansion process, such as Cases B and D.

Therefore, the first distinctive outcome of this study is to place psychic distance at the centre of the newly developed model, and explain the interrelationships between psychic distance and the other factor categories. Psychic distance directly facilitates retail firms' internal competencies and firm-specific factors and further influences their interpretations of the external environment and country-specific factors. This demonstrates the usefulness of combining the three important frameworks in the international retailing literature.

The second important theoretical implication is the extended factor categories, including alternative factors and emerging themes, which improve the understanding of the foreign retailer expansion process. Previous frameworks focused mainly on developed markets, which might explain why country-specific and firm-specific factors emerged as new themes when analysing China's market. The two factor categories identified based on the literature review have been adjusted and extended to include alternative factors when examined in the context of China. These include the external environment and internal competencies. Psychic distance and location choices were applied to explain how they particularly influence the expansion process of

foreign retailers in China. These findings may be applicable in other emerging markets.

The third vital point for the theoretical implications of this study is that the focus of this study on the expansion process of foreign retailers at their post-entry stage has provided an indispensable link between the explanations of foreign retailers' pre-entry, entry activities, and performance. The newly developed model can help further research analyse how foreign retailers' activities at different stages of retailer internationalization influence their performance (failure or success). This improved theoretical foundation provides a good basis for future research on the retail internationalization process and therefore on the firm internationalization process.

7.6 Managerial implications

Several managerial implications for foreign retailers or other foreign firms expanding in China can be suggested based on the factors identified by this study.

Understanding *external environment and country-specific factors* in China is crucial for foreign retailer expansion. As was shown in Cases A, B, C, and D, supporting governmental policies, obeying laws and regulations, and understanding China's country-specific factors will provide great benefits for firms' further expansion. Foreign firms need to be aware of and strictly follow central and local government policies, and recognize the significant role that local policies can play in their expansion process (stated by interviewed managers of all five cases in this study). Chinese local governments have important powers, including the authority to set up local regulations and preferential rules. It is therefore essential for foreign firms to maintain a good relationship with local governments to support their expansion process in the regions (stated by all the managers in the case studies). Not only will it contribute to the foreign firms' local expansion, but the firms' good reputation will improve from obeying local policies which could earn them praise by the central government. This can be an important influence on the foreign company's prospects in the next stages of their expansion, with Case A as a good example. Although Wal-Mart took a slow expansion path in China in the early years of its operation, it gained a good reputation by strictly following governmental policies and the firm is gradually speeding up its expansion. Simultaneously, it is very important for foreign retailers to demonstrate to the local governments that they are doing well to enable the company to provide return to the

region on any preferential benefits they gained, so that the firms can obtain further support. The rapid expansion gained by Cases A, B, C, and D has benefited from this crucial point.

In addition, China's distribution system and transportation infrastructure have had a significant impact on the expansion of foreign retail firms. For example, Wal-Mart's advanced technology system could not be fully taken advantage of in China due to the lower level of the available distribution system and poor transportation conditions in certain areas, which reduced the efficiency of Wal-Mart's operation. However, the gradual improvement in infrastructure may provide new opportunities for foreign retailer expansion, based on which more and more foreign retailers will establish global purchase centres in China.

Moreover, the phenomenon of competition-driven suburbanization will be important for both domestic and foreign retail firms. The improvement in living standards in China contributes to the growth of the middle class and urbanized population. Increased urbanization has provided good opportunities for retail growth. Foreign retailers that understand the external environment and country-specific factors have been more successful in their expansion process (such as Cases A, B, C, and D).

Foreign retail firms' continuous improvement in their *internal competencies and firm-specific factors* through learning has contributed to the reduction of psychic distance, which can be seen from Cases A and C. This helps the firms to better interpret the external environment and country-specific factors so that they can expand more effectively in the market. The increasing expansion speed of Cases A, B, and C provided good examples. Resource commitment and differential advantage are found to be essential for the expansion process of foreign retailers, without which a foreign retail firm is not able to expand in China. International experience can be a specific influential factor in the process of foreign retailer expansion in China. Firms with large resources and a lot of experience will be able to take larger steps in the internationalization process (Johanson and Vahlne, 1990). Carrefour is a good example, as it has been expanding rapidly in different parts of China since it entered the market based on its substantial international experience. Retailers that have competitive advantages such as resource commitment, differential advantages, and international experience can start to gain a larger market share at an earlier stage of business activity in China.

Firms with flexible attitudes gained more opportunities than those who were relatively conservative in China, which is the main reason

why Carrefour (Case B), the second biggest retailer in the world in terms of sales, has been the biggest foreign retailer in terms of sales and store numbers in China compared to Wal-Mart (Case A), which is the biggest retailer in the world in terms of sales. However, being overly flexible can be problematic. For example, the overly aggressive expansion process of Carrefour caused problems. Carrefour entered China by cultivating relationships with local government and ignoring the central government, while foreign retailers need both central and local government approvals to operate. The expansion was finally prohibited by the Chinese central government, and Carrefour had to adjust its strategies and inappropriate behaviours before it expanded further. On the other hand, by being flexible, Carrefour's rapid expansion has made the firm the biggest foreign retailer in the Chinese market.

Wal-Mart appeared conservative after it entered China. This mainly stemmed from the international experience the company had. Since Carrefour was not allowed to expand nationally in the French market, it had gained abundant international experience as early as the 1960s by expanding into the international market (Senior Manager, Carrefour, North China). Carrefour opened its first store in Belgium outside France in 1969. Then, it entered Asia in 1989 by opening a store in Taiwan (Carrefour.com, 2008), and finally China in 1995. Carrefour's successful operation in Taiwan significantly contributed to its further success in China, because the company had gained valuable experience by serving Chinese consumers (Senior Manager, Carrefour, North China). In comparison, Wal-Mart had good opportunities to expand nationally in the US so that the retailer did not expand internationally until it had saturated the home market in 1990s, by which time it had already been operating in more than 30 states. Wal-Mart opened its first international store in Mexico City in 1991. It opened three value clubs in Hong Kong in 1994 before it entered China in 1996 (walmartstores.com, 2008). The above evidence demonstrates why Wal-Mart appeared less internationally experienced compared to its rivals such as Carrefour. This also explains why Wal-Mart took a slower expansion route in China compared to Carrefour during the research period.

Decision-making in the case study firms tended to be made in teams. Amongst the case studies, the decision-makers from the US, Germany, and Japan appeared to be more conservative than those from France and the UK. The more conservative team cultures tended to keep the firm's original cultures and values from their home markets. The less conservative team cultures tended to be more flexible and follow the values of the local cultures.

In addition, firm-specific factors need to be analysed by foreign retail firms when expanding in China. These factors include firms' internal commercial agreement, business networking, investigation and research, and the localized management team and the degree of localization. One firm could operate two separate entities under different names. In this case, the firm's internal commercial agreement will probably forbid competition but negatively affect their expansion process as in the case of Metro and Makro. Business networking can involve networking between governments and the firm, suppliers and the firm, and so on. Positive business networking is important for foreign retailers' expansion process. *Guanxi* networks can influence the expansion process of foreign retail firms. From the case study evidence, keeping good relationships with both Chinese central and local governments and suppliers is very important for the expansion process of foreign retailers.

Investigation and research are also very important before foreign retailers expand into another region in China because it can be similar to expanding into a new country; all the firms studied paid particular attention to investigation and research when expanding in China. Most foreign retailers have been cautious about various consumer habits and cultures in different regions in China and spent several years investigating the market before their entry into a new region. Before they chose the locations for their operations, they usually undertook a comprehensive analysis of the transportation infrastructure, population, competition, market-growth potential, as well as other factors that can be important for their future expansion in the market. For example, after excluding 22 alternative locations, Metro chose to locate its first store at the entry of the Huning Expressway. Its longer-term plan is to open other stores along this expressway at every 100 kilometres. Metro located their second store in the Eastern District of Wuxi next to an expressway connection to their first store. Metro can then develop its distribution network outwards from Wuxi to Yixing and Changzhou (Wang *et al.*, 2007).

The localized management team and the degree of localization are vital for the expansion process of foreign retailers in China. Both factors can help foreign retailers to apply adaptation or standardization accordingly in China. In order to meet the needs of Chinese consumers and maintain competitive advantage in the Chinese market, foreign retailers have focused on localization: products, location choices, promotion styles, customer services, and human resource management have been considerably localized (Wang and Li, 2006). Localization has been

emphasized more and more by foreign retailers during the research period, evidenced by all the cases studied. There are a few localization strategies that have been implemented by foreign retail firms discovered by this study:

- As shown in the examples of Cases A, B, C, and D, foreign retailers have gradually empowered their local managers.
- The staff recruitment policy is focused on the search for local managers who have international experience and who can contribute to dealing with local governments. Foreign retailers seek to attract good local managers and other employees through the provision of a specific training programme and high pay systems (Case A).
- Local managers' opinions are taken more seriously when firms are doing investigation and setting up strategies for expansion, evidenced by Cases A, C, and E. Cases B and D took local managers' opinions seriously even at the beginning of their expansion process.
- Choosing good local partners is an important step towards the foreign retail firm's success in the expansion process. Powerful local partners and good partnerships can help foreign firms to deal with the local governments better and understand the local systems and cultures in a more effective way. Carrefour's success in China is mainly due to effective cooperation with local partners.

Psychic distance facilitates foreign retail firms' internal competencies and firm-specific factors, and further influences their interpretation of the external environment and country-specific factors. These together will have an impact on location choices for their expansion process.

The most interesting and important phenomenon is that the majority of foreign giants tended to retain their home management style and corporate culture in the first few years of entry into China. However, Western firms' cultures and management styles are very different from those of Chinese firms in many ways. In the foreign retail firms, most of the top managers or even executives are Chinese, who take the responsibilities for dealing with local employees, and with local and central governments. Managers must follow their own firms' regulations and cultures when they are dealing with Chinese local authorities. In many of these cases, Chinese managers can face difficulties when they apply Western management styles to dealing with Chinese governments. For example, gifts and presents are seen as normal by Chinese local governments particularly during festival seasons. However, they are seen as bribes by some Western firms such as Case A. Some retail firms, acting

in accordance with their home culture, refuse to offer gifts of this kind, and focus on the firm's performance or their contributions to the local economy. Many things, however, do not work in China as they do in their home culture. With increased experience, foreign retailers stated that they realized the need to adjust the company's management style to get closer to Chinese culture.

Psychic distance is therefore vital for foreign retail firms' expansion process. Foreign retailers' learning from their expansion process leads to reduced psychic distance, which in turn contributes to their improvement in internal competencies and strengthening firm-specific factors. Foreign retailers' internal competencies and firm-specific factors again contribute to reducing psychic distance, which directly influences location choices in the process of foreign retailer expansion.

Location choices have been found to be very important for the expansion process of foreign retailers in this study. As stated in the discussion on findings under location choice investigations in section 7.2.6, in order to make appropriate location choices, foreign retailers need to consider political, economic, social, and cultural issues. This requires an accurate interpretation of the external environment and country-specific factors. As has been noted above, China is a massive market, and local governments have a strong influence over local businesses. Local political issues have had important impacts on foreign retailers' store openings in different cities and regions. Positive local government support has brought good consequences for foreign retailer expansion, such as Wal-Mart's expansion in South China and Carrefour and Metro's expansion in East China. In contrast, Wal-Mart could not start to expand in Shanghai until late 2005 due to a lack of local government support. It is also important for foreign retailers to follow central government policies. Carrefour and Wal-Mart's store opening in West China has followed the Chinese central government's 'Go West' plan. Table 7.1 demonstrates the main reasons why foreign retailers 'Go West'.

As can be seen from Table 7.1, the unbalanced economic conditions in different parts of China have started to shift the focus of foreign retailer expansion from saturated regions to underdeveloped regions, that is, from East and South China to West China. For example, Chongqing was the first stop on Carrefour's westward expansion. By the end of 2005, Carrefour had seven stores in the western region of China, including Chengdu, Chongqing, and Kunming. Carrefour managers confirmed they also planned to relocate their headquarters from Shanghai to Chengdu, the capital of Sichuan province, Southwest China. This move will be a reflection of Carrefour's changing emphasis towards the

Table 7.1 Main reasons why foreign retailers 'Go West'

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1. The central government's policy is to attract foreign investment in the Western regions. International retailers who invest in the Western regions of China can benefit from preferential treatment in terms of taxation and share allocation. Foreign invested retail enterprises operating in the Western regions have a lower minimum capital investment requirement for business registration than those operating in the Eastern coastal regions.
 2. There is less rivalry and competition in the Western regions than in the Eastern regions. This makes it easier for international retailers to gain market power and share in the West.
 3. There is vast development space in the Western regions. From 1992 to date, both foreign retailers and domestic retailers have occupied almost all the advantageous locations in the Eastern regions.
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Source: Wang *et al.* (2007).

Western and Central regions of China. By 2004, Carrefour had opened a store in Xinjiang, West China, and decided to locate two new stores in Xinjiang. Carrefour had 14 hypermarkets in the Western region of China by the end of 2005. As early as 2003, companies, including Wal-Mart and Metro, all opened stores successfully in cities in West China such as Chengdu, Sichuan province and Kunming, Yunnan province (Wang *et al.*, 2007).

Foreign retailers should also pay attention to social and cultural uniqueness in different regions of China when expanding. These diversities significantly influence the expansion process of foreign retailers. All the cases studied have noted these factors. For example, the effectively expanding retailers such as Wal-Mart, Carrefour, Metro, and Tesco have all learned the different consumer needs in different regions of China. Buyers are so different in various parts of China; for instance, consumers' tastes in Guangzhou, South China, are very different from those of Shenyang, Northeast China (Senior Manager, Tesco, UK). Foreign retail firms obviously need to attract their local market based on relevant social and cultural issues.

Increased knowledge about a foreign country can reduce both the cost and uncertainty of operating in a foreign market (Buckley and Casson, 1981). Location choices are discrete and rational choices, which can be influenced by firms' experience (Benito and Gripsrud, 1992). Findings in this study suggest that foreign retail firms need to improve their knowledge of China's market. Based on their market experience and learning, they should be able to make more discrete and rational location choices for the expansion of the business.

The points mentioned above applied to Wal-Mart and Carrefour's early entry into West China. Even though the retail structure in the Western regions lags behind the Eastern areas, there is demand for advanced retail formats in the Western areas. Retailers who are willing to establish operations in the Western regions of China may also be the winners in the long run as they have taken the advantages of being first. If the retailers are able to occupy large urban markets quickly with multiple stores, they can effectively pre-empt subsequent entrants (Wang, 2003).

7.7 The future market

The importance of gradual learning should not be underestimated even for the most experienced and internationally diversified firms (Buckley and Ghauri, 1999). Although foreign retailers have started their expansion process in China, they have not made a significant impact on China's retail sector. Foreign retail firms account for only about 8 per cent of the total retail sales in the Chinese market (Euromonitor, 2008a). Moreover, to cope with foreign competition, both domestic industry leaders and the Chinese government have taken actions to protect local retailers. For example, the Chinese government was asked by domestic retailers to implement policies to control the timing and the location for foreign retailers' entry, aiming to reduce the influence of foreign retailers' competition in order to give local Chinese retailers more time to respond to the competition.

Economies of scale and increased efficiency help to make foreign retailers more competitive than Chinese retailers. This enables foreign retailers to charge lower prices, which help attract Chinese customers. Foreign invested retail establishments are a lot larger than local retail enterprises according to the Beijing Statistics Bureau (1999). For example, in Beijing, foreign retailers occupied only 0.4 per cent of total retail enterprises, but employed 2.4 percent of retail employees in the city with an average of 179 employees per firm – three times as large as state-owned establishments. Foreign retail firms also have the largest floor space, with an average store size of 5,232 m², which is about three times the average floor space of the state-owned stores.

Foreign retailers' low production costs and more efficient distribution systems also help them to be able to offer lower prices (Cai, 1997; Yi, 1997). In addition, foreign retailers are able to negotiate with suppliers for low wholesale prices by buying in large quantities and paying in cash. They turned to Sino-foreign joint manufacturers to substitute supplies locally for expensive imports (People's Daily, 29 August 1999).

Since foreign retailers have the power to help Chinese manufacturers export their products into their home countries or other foreign countries where they operate, foreign retail giants gain power in negotiations for lower prices with Chinese manufacturers and suppliers. Moreover, foreign retail firms are also willing to accept lower profit margins than Chinese ones because of the long-term focus of their business plans and their strategy of expanding their market share in steps, through establishing their reputation and popularizing their brands (Wang, 2003).

Simultaneously, actions have been taken by large Chinese retailers, particularly those located in the same city, to consolidate or to merge local small businesses to form retail chains. This has gained strong support from the Chinese government, which decided to focus on the development of indigenous retail chains as a means to modernize China's retail industry to respond to foreign competition (Li, 1997a, 1997b; Gu, 1998). The Chinese government continues to push for the transformation of state-owned firms into joint-stock companies, which is seen as the most effective way to raise business capital and reduce the barriers associated with trans-regional and trans-sectoral retail chain expansion. Chinese retail industry leaders have also recognized that it is important to shift away from the focus on department stores as the main retail format to development of new retail formats such as hypermarket and warehouse retailing (Wang, 2003). Table 7.2 shows the percentage of the sales and predicted sales of modern formats from 2002 to 2012 in China.

As can be seen from Table 7.2, the percentage of sales by modern formats has grown and is expected to continue growing dramatically

Table 7.2 Sales and predicted sales through modern formats

Sales through modern store formats as a percentage of total grocery retailing			
	2002 (%)	2007 (%)	2012 (%)
USA	71	72	74
Japan	62	65	65
France	80	81	82
United Kingdom	78	84	86
Germany	81	85	87
China	30	59	70
Italy	73	73	73
India	1	2	14
Russia	34	45	56
Spain	65	72	75

Source: Euromonitor International Data sorted in order of 2007 market size.

between 2002 and 2012. China can become the fourth largest country in the world in the percentage of sales through modern retail formats. This should provide significant opportunities for foreign retail giants to further expand in the Chinese market by applying appropriate expansion strategies. China has continued to further liberalize its economy, and the country is dealing with the problems that affect domestic and foreign businesses. The fact that foreign investors, including foreign retailers, continue to invest into China regardless of the challenges they face suggests that China's future business environment is viewed optimistically (Daniels *et al.*, 2007).

7.8 Limitations

Although this study applied multiple case replication design and triangulation, it is not without its shortcomings and limitations. The limitations involve mainly issues of methodology and analysis strategy.

The case study approach in this research is based mainly on qualitative methods, with additional data collected through questionnaires administered during the interviews and document data. The limitations of these methods should not be neglected. First, the number of cases studied is always an issue in this approach. The number of cases needed is debatable. It is always difficult to answer how many cases should be included in case study research (Ghauri *et al.*, 1995). Often, just one case is enough (Mintzberg, 1979). Although more than two cases can make research findings more robust, conducting a multiple-case study requires extensive resources and time, which can be beyond the means of a single student or independent research investigator (Yin, 1994, 2003). This has been experienced by the author of this research. It was not easy to arrange collecting data for all five cases; the resources and time required were the greatest difficulties over the data collection period. On the other hand, there is some research that has been done which involved investigating even more cases, such as Szanton (1981) who selected four groups of cases involving more than ten case studies to show how different university groups all failed to help cities.

Second, the question as to whether the chosen cases are truly representative is also controversial. Third, there is the question of how many interviews need to be conducted to be sufficient. Although the answers given in the interviews were identical or similar, might more interviews have provided unexpected answers?

In addition, has there been any researcher reactivity? For example, has the gender of the researcher had any influence on the answers given

in the interviews, or the access permitted to the researcher? The majority of the managers interviewed for this research were male, reflecting the relatively low participation rate by women in senior management positions. Might there be differences in male and female thinking, perception, or point of view? The majority of interviewees were Chinese senior managers who work in foreign retail firms. Might the views presented have been dominated by a Chinese senior management perspective? Moreover, the document data collected were limited to the period of analysis, but new document data available outside the analysis period might have provided a different picture.

Quantitative data (questionnaires) were collected to triangulate with the qualitative data, and the questionnaires were face-to-face administered. However, due to the confidential nature of the research questions, not all the interviewees were willing to complete the questionnaires even though the questionnaires asked similar questions to the interviews because some of the interviewees were reluctant to have their views recorded and identified through filling in a questionnaire. A larger anonymous questionnaire might have generated additional data. However, the researcher was in a better position to evaluate the authenticity of the answers in interviewer-administered than self-administered questionnaires. The interviews and obtained questionnaires enabled the researcher to draw conclusions with greater confidence in their accuracy.

In terms of analysis strategies, the analysis of questionnaires was based simply on the average (mode) as appropriate for a small data pool. If the data pool has been larger, more detailed statistical analysis of the questionnaire data would be appropriate.

7.9 Future research

One of the important contributions of this study is to suggest significant future research. Some of the issues are more urgent than others.

As mentioned above, most of the previous research on international retailing has concentrated on retail firms' pre-entry and entry stages. After market entry, as retailers expand in foreign countries, their post-entry activities should be further analysed. This study focuses on the expansion process of foreign retail firms, which is at the post-entry stage of the retail internationalization process. Investigating foreign retailers' other activities at this stage would be interesting and useful to contribute to theory building in the field of retail internationalization. There is more work that needs to be done in this area on China and other

emerging markets. For example, further work can focus on the foreign operations of international stores such as retail brand, store positioning, retailer learning process at the post-entry stage and beyond; network development, such as *guanxi* networks in China; and foreign retail firms' repositioning in a local market.

In addition, this study covered several areas in a broad context. Besides the literature on retail internationalization, the study approached the internationalization of firms and cross-culture issues in a transitional economy and an emerging market. It would be very helpful if similar research can be conducted in other transitional economies or emerging markets to analyse how and why the same or other retailers expanded in those countries, for example, foreign retailers in Brazil, India, and Russia. Comparison studies may contribute to the development of new theories, particularly with new topics emerging.

Furthermore, four of the case studies chosen in this research are also important firms in the business world globally. Their behaviours are representative and influential in international management and cross-cultural learning. More research can be done on cross-cultural management issues to compare differences between Western firms, firms from non-Western developed countries such as Japan, and firms from transitional countries such as China. This study chose case studies in the retail sector, which are very dependent on consumer behaviours, so up-to-date research on Chinese consumer behaviour is also needed. Chinese consumer behaviour has changed significantly, which is not only relevant to the retail sector, but is also very important for other sectors and businesses operating in China.

Finally, another vital direction for future research is a focus on how Chinese domestic retailers should respond or react to foreign retailers' competition. Although the market for foreign retailers in China is still small (the total market share of all the foreign retailers is 8 per cent according to MINTEL 2008b), their advanced management skills and huge capital investments are expected to increase the market share rapidly. In addition, the Chinese market is already open to the foreign retail firms, and Chinese retailers no longer have a protected market. Research on what and how domestic retailers have done or should do in competition will be of interest to academics and practitioners. In response to competition and developing management skills by learning from foreign retailers in China, some Chinese retailers have themselves started internationalizing. The process of Chinese retailers' internationalization raises many interesting research themes (Zhang and Wang, 2007).

Final conclusions

This study aimed to explain the factors that influence the expansion process of foreign retailers in China. The main theoretical frameworks were adopted from international retailing literature. The factors adopted in the integrated framework (Figure 3.2) were analysed based on international retailing and international business literature before the propositions were set up.

A multiple-case research study was conducted to analyse the expansion process of foreign retailers at their post-market entry stage of retail internationalization. The findings from this study not only confirm that this process is greatly influenced by external environment, internal competencies, psychic distance, and location choices, derived from previous theoretical work, but they also identify country-specific factors and firm-specific factors as emerging themes.

The external environment, which was mentioned by Vida and Fairhurst (1998), Alexander and Myers (2000), and Evans *et al.* (2000) in their frameworks, influenced the expansion process of foreign retailers in China's market. In this study, the external environment particularly includes deregulation and opening of the market (in particular, China's entry into the WTO agreement), central and local government policies, and laws and regulations.

Country-specific factors were found to have a significant influence on the expansion process of foreign retail firms in China. These factors were identified as emerging themes and include the distribution system, competition-driven suburbanization, transportation, and urbanization.

Internal competencies, involving firms' and decision-makers' characteristics, which were addressed by Vida and Fairhurst (1998), Alexander and Myers (2000), and Evans *et al.* (2000), all influenced the process of foreign retailer expansion in China. Firms' characteristics in this study particularly refer to firms' resource commitment, differential advantages, and international experience. Decision-makers' characteristics refer to perceptions and attitudes, work experience, leadership delegation (empowerment to Chinese managers), and education level.

Firm-specific factors were found to have an important influence on the process of foreign retailer expansion, identified by emerging themes. These factors include the firms' internal commercial agreements, business networking, investigation and research, localized management team, and degree of localization.

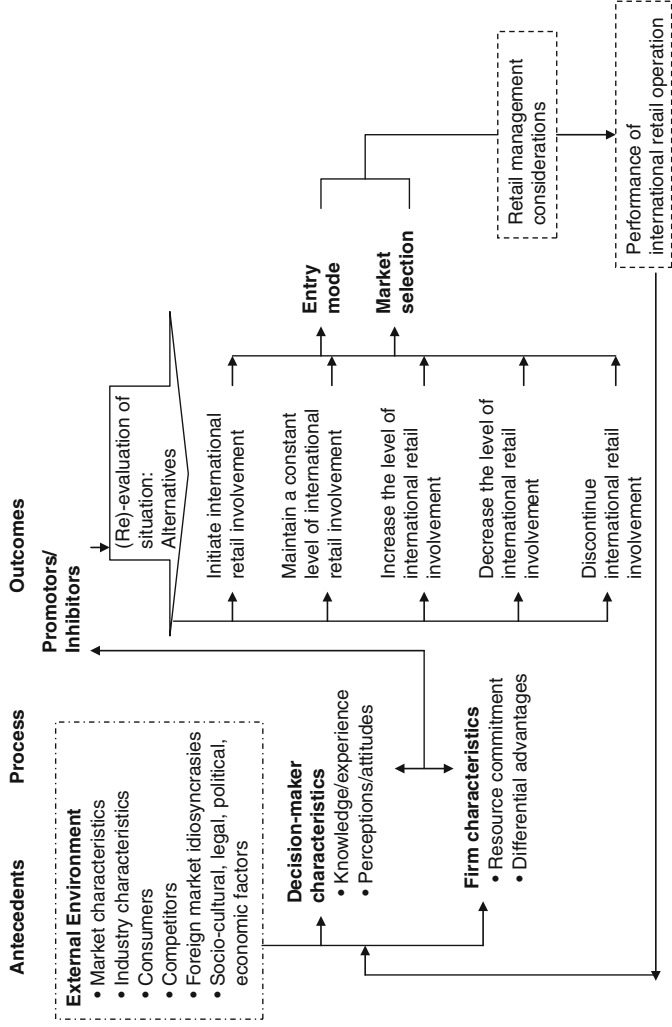
Psychic distance, addressed in Evan *et al.* (2000)'s framework, occupies a central place in the integrated framework, because it plays such

an important role in the foreign retailer expansion process. In this process, foreign retailers transfer their knowledge to China and learn from this process. Through learning, psychic distance can be reduced. Foreign retail firms are able to better facilitate their internal competencies and firm-specific factors, and better interpret their external environment and country-specific factors so that more appropriate location choices can be made.

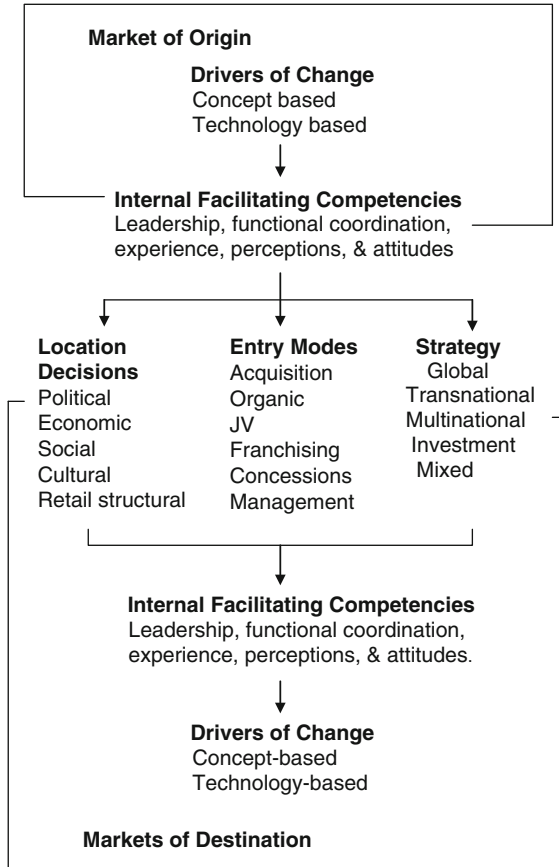
Location choices, addressed by Vida and Fairhurst (1998), Alexander and Myers (2000), and Evans *et al.* (2000), are significantly influenced by local political, economic, social, and cultural characteristics. International retailers need to simultaneously manage macro-location (countries, regions or cities) and micro-location (store locations), as well as the layout of different stores in one host country (Wang *et al.*, 2007). China is seen as a collection of markets. Although China's retail market is now fully opened, effective expansion plans are needed during the expansion process of foreign retailers.

This analysis provides important insights into an emerging area of international retailing research. The emerging themes identified by this study may be adopted to analyse foreign retailers' post-market entry activities in other developing markets. This should help to develop a better understanding of firm internationalization in general. The findings also offer significant implications for managers of international retail firms operating in China and other emerging markets.

Appendix 1 A model of factors influencing the retail internationalization process

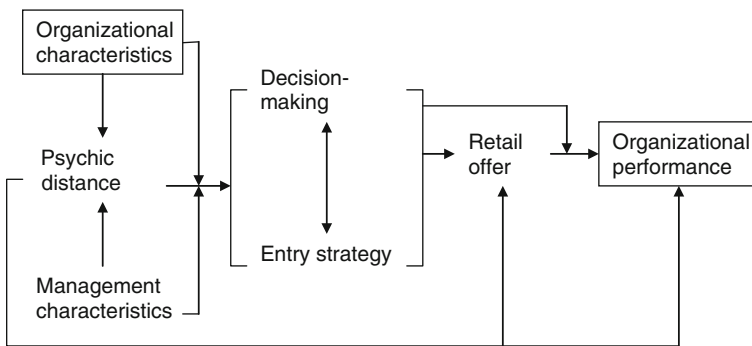


Appendix 2 Operational internationalization



Source: Alexander and Myers (2000: 345).

Appendix 3 Theoretical framework of psychic distance and the performance of international retailers



Source: Evans *et al.* (2000: 375).

Appendix 4 Questionnaire

The Questionnaire	The Codebook
1 The importance of the role of China's entry into the WTO to the firm's expansion process	Ex.1 (variable name)
Very important	1 (value)
Important	2 (value)
Not concerned	3 (value)
Not important	4 (value)
Useless	5 (value)
2 The importance of central government policies to the firm's expansion process	Ex.2
Very important	1
Important	2
Not concerned	3
Not important	4
Useless	5
3 The importance of local government policies to the firm's expansion process	Ex.3
Very important	1
Important	2
Not concerned	3
Not concerned	4
Useless	5
4 The importance of laws and regulations to the firm's expansion process (added from interview 9)	Ex.4
Very important	1
Important	2
Not concerned	3
Not important	4
Useless	5
5 The importance of firm's characteristics (resource commitment, differential advantages and international experience) to the firm's expansion process	In.1 (In.1.1, In.1.2, In.1.3)
Very important	1
Important	2
Not concerned	3
Not important	4
Useless	5

(continued)

Continued

The Questionnaire	The Codebook
6 The importance of decision-makers' characteristics (perceptions and attitudes, work experience, leadership delegation) to the firm's expansion process	In.2 (In.2.1, In.2.2, In.2.3)
Very important	1
Important	2
Not concerned	3
Not important	4
Useless	5
7 The importance of psychic distance to the firm's expansion process (foreign retailer's culture and management styles responding to psychic distance between China and home markets)	Ps. (Ps.1, Ps.2)
Very important	1
Important	2
Not concerned	3
Not important	4
Useless	5
8 The consideration of different location choices (political, economic, social and cultural issues) to the firm's expansion process	Lo. (Lo.1, Lo.2, Lo.3, Lo.4)
Very important	1
Important	2
Not concerned	3
Not important	4
Useless	5
9 The decision-maker's characteristics	In.2.1/In.2.3
Flexible approach with higher level of leadership delegation	1
Conservative approach with lower level of leadership delegation	5
10 The decision-maker's educational level	In.2.4
High	1
Low	5
Not essential	3
11 The decision-maker's work experience	In.2.2
Very experienced	1
Not experienced	5
Not essential	3

Note: Code 9 = missing value (question was skipped or it was felt difficult to answer).

Code 8 = others (interviewees gave different answers that are not included in the questionnaire).

Appendix 5 Individual case reports

This section is designed to introduce the five case study reports. Each case analysis focuses on the propositions set up and emerging themes identified, and every case is reported according to the factors identified following the case study protocol, which was set up before the data collection. The main purpose of the individual case report is to explain the factors that influence each exemplary firm's expansion process in China's market.

The role of protocol and general information of the case study

Theoretical frameworks for all the case studies are based on the integrated framework, shown in Figure 3.1; the propositions and general guiding interview questions for all the case studies are shown in Table 4.2, organized by research objectives and propositions.

The role of protocol as a standardized agenda is to guide the researcher to do the entire case and give a basis for the researcher to complete the individual case report (Yin, 2003). The case study protocol for this research is introduced in Table 4.1. Relevant documents were reviewed for the preparation prior to the interviews. Based on the knowledge that the researcher had while conducting her MBA dissertation titled 'An assessment of the opportunities and challenges of foreign retailers in China's market after its WTO entry', the knowledge on the background of the key expansion activities of foreign retailers in China had been accumulated by the researcher since 2003 continuously. In order to get the interviews prepared as much as possible beforehand, the very recent activities of the investigated retailers had been reviewed before the data collection, the retail business environment in China had been analysed, and a systematic and broad review of the literature had been conducted. Crucially, different data collection methods were applied through a multiple-case replication design.

The case study reports below follow the case study protocol as shown in Table 4.1.

Case A: Wal-Mart

Data collection procedures

Wal-Mart China was contacted, and some of the contacts were introduced by officers who worked at CCFA; a senior manager of Wal-Mart North China in Beijing was introduced to the researcher by an officer at CCFA; a senior manager of Wal-Mart Middle China was introduced to the researcher by the senior manager of Wal-Mart North China; and another senior manager of Wal-Mart Northeast China was also introduced by the senior manager of Wal-Mart North China. In addition, data on Wal-Mart China were also collected

from two senior managers from CCFA and a manager of a supply company in Middle China.

Data collection dates for Wal-Mart with the above three managers were 9 November (18.00–19.30) in Beijing; 17 November (10.30–11.50) in Changsha, Middle China; and 13 December 2005 (9.40–11.20) in Shenyang, Northeast China.

Case study questions

The factors that influence Wal-Mart's expansion process in China:

Level 1: Questions asked for specific interviews

- A. Open questions: What are the main factors that influence Wal-Mart's expansion process in China? How do these factors influence the expansion process?
- B. Are any other relevant factors also influential and important for Wal-Mart's expansion process in China?
- C. Probing questions: Point out any factor that is not mentioned in the open questions A and B.

Level 2: Questions asked of this individual case when appropriate

Case A: Why does Wal-Mart show slow expansion process in China and how is this attained?

Outline of the case study report

- Brief background
- Expansion process
- Factors influencing the expansion process
- Other issues

Wal-Mart was founded in 1962 by Sam Walton; it has now become the largest retailer worldwide. It was operating 5000 units in ten countries by the end of 2005.

Wal-Mart entered China in 1996, and first investigated the whole market with headquarters located in South China for about two years before it finally decided where to open the first store. The firm was unable to open its first store in Shanghai due to local governmental policies, and it finally opened its first store in Shenzhen through a JV agreement with the support of the local government.

In 2004, Wal-Mart topped the China Business Competitiveness Index among commercial and trade firms. It had 189 units in 101 cities in China by August 2010. The firm also has established a good reputation in the Chinese market; it procures over 95 per cent of local products whenever a store is opened. The firm was ranked No. 1 under 'Good Credibility and Accurate and Prompt Payment' for several years by CCFA. In addition, through its Global Procurement Centre in Shenzhen, the company purchases a high volume of merchandise in China to export to the rest of the world (Wal-martchina.com, 2006).

Like any other foreign firms, Wal-Mart has benefited from China's deregulation in the retail sector by its entry into the WTO agreement. However, after a certain crucial period, the management team believes that if all the firms stand

in the same position, other factors such as competitive advantages will play a more important role in the long run.

'After China joined the WTO, foreign firms were in the same position to develop, though governmental policies are vital, we need to focus on competition and other differential advantages' (Senior Manager, Wal-Mart, North China).

Particularly after the Chinese government had lifted all the restrictions on opening up the retail sector by the end of 2004, foreign retail chains were then allowed to compete freely against domestic retailers; and major international retailers which already had a strong presence in major cities in the Chinese market by this time have slowly penetrated into China's second-tier cities even though in these cities domestic Chinese retailers have an advantage.

According to the China Economic Net (2004), China has become an attractive market for world retailers due to the country's fast economic growth and huge potential market. When Wal-Mart opened its 40th outlet in Wuhan, a central Chinese city, the manager of East China said that Wal-Mart attached significant importance to the outlet, and 30 per cent of the retail outlet's products were stocked from the local market.

Wal-Mart had a slow expansion in China even with the advantages of capital, distribution knowledge, and efficiency, because some local governments did not provide enough support. If a foreign firm absolutely follows the central government's policies, by waiting for the approval of local governments, then its expansion speed may be very slow in China, and may face obstacles. Comparably, some foreign retail firms have taken short-cuts, by choosing to have JVs with a local company, which does not really get involved in management decisions, because Chinese local governments always support local firms.

During its process of expansion, Wal-Mart has noticed that local and regional policies have significantly influenced its expansion activities in China. Wal-Mart and other multinationals will continue to rely on local partners. The diversity of the country's economy dictates that the same formula for expansion used in big cities might not be work everywhere else. Since China is not just a single market but a collection of markets, foreign retailers gradually plan to establish long-term relationships with local partners.

'Local partners can help find good locations and help with other formalities ... China is a collection of markets, not just a single market. Therefore, foreigners will not just go alone' (Shenzhen Daily, 13 December 2004).

'Central government policies are very important for our expansion as well as local policies. But local policies are relatively more important than central government policies because in China local governments are in charge of their own areas and support local businesses' (Senior Manager, Wal-Mart, Northeast China).

'The second factor that influences our expansion process in China depends on the pattern of the business networking ... Whether or not the new stores can be opened in a city or region very much relies on the networks that we have with the local government' (Senior Manager, Wal-Mart, Middle China).

Before the above interview was conducted, the researcher with one of the interviewees both attended the opening ceremony of the second Wal-Mart store in Changsha city, Hunan province. The new store was significantly supported by the local government. The mayor of the city and the district's leaders all attended the huge ceremony together with the CEO of Wal-Mart in China. The ceremony lasted about two hours and was reported by many TV and newspaper journalists.

Wal-Mart always intends to follow laws and regulations, and therefore sees laws and regulations as crucial factors that influence the firm's expansion. The firm also realizes the particular uniqueness of Chinese culture, such as networking and relationships in business.

'Laws and regulations are important for our expansion. However, in fact power could be more important in China than laws and regulations, because power could play more roles than laws and regulations' (Senior Manager, Wal-Mart, Northeast China).

Wal-Mart tends to keep its own company's culture and management style. Colleagues (who are called associates) work in teams and managers are also good leaders.

'Teams are very important in our company, but everyone has to fit in with the company's culture' (Senior manager, Wal-Mart, Northeast China).

With many stores opening and a long period of operation in China, Wal-Mart has had difficulties in dealing with governmental relationships because it strongly keeps to its own company culture rather than adopting Chinese management styles.

'Chinese colleagues feel embarrassed by not being part of the Chinese culture when dealing with local governments. For example, we do not provide any gifts for the local governments even when we need to meet the local officials during a festival, such as the Chinese New Year' (Senior Manager, Wal-Mart, Northeast China).

Location choices are significant factors that influence retail businesses in China. Compared with an average two vehicles in each US household, about 2 per cent of China's households own a car. Many people still ride bicycles for shopping, which makes convenient store locations more important.

Wal-Mart had a series of problems with location choices in the Chinese market. After gaining experience from establishing a number of stores in other cities, the company realized that it is important to locate their stores in places where the transportation is convenient to meet the needs of Chinese people who do not have cars. Wal-Mart opened its second store in a very famous shopping centre in Shenyang City, Liaoning province, Northeast China – Wal-Mart's Taiyuan Street branch, which is situated in one of the important shopping centres in the city near the major train station, where a huge number of people and buses pass by daily.

However, there are still problems for this branch due to social and cultural issues in China. Wal-Mart might have not understood clearly that Chinese

people do not normally do food shopping at the same time as clothes shopping in the high street shopping centres. One reason is the fact that the majority of shoppers do not have a car and people do not feel comfortable carrying food shopping bags into the clothing shopping centre or vice versa; another reason is that after looking around the big clothing shopping stores, it is very difficult for people to continue the food shopping due to tiredness caused by large crowds in the shopping centres. Therefore, most Chinese people plan separate food and clothes shopping, and a supermarket located in a shopping centre but far away from residential areas might not be the best idea to attract Chinese consumers to do their food shopping.

There is another problem when locating a store in shopping centres. Shopping centres in most Chinese cities are located close to more pedestrian areas, and normally on these kinds of streets, transportation regulations do not allow long-term parking for cars and taxis; the parking of bicycles and three-wheeled bicycles is also seriously controlled or prohibited (see Photo 1). Normally, there is somebody standing near the traffic lights to control the pedestrians, which indicates that this street is seriously controlled in terms of vehicles and traffic. It could cause even more inconvenience for customers who do not have cars or cannot afford taxis to do shopping in this supermarket, as they have to board crowded buses when carrying heavy shopping bags.

Wal-Mart does have several problems in their location choices. Some of their stores are located in important places in Beijing, such as its Jianguo Road branch in an office complex in Beijing. Although it is located in central Beijing, it is not close to any residential area and it is quite hard for customers to find the store, because it is situated on the ground floor of a tall office building. Due to the vague signs, it took the researcher about 15 minutes to find the entrance by asking several pedestrians even though at the time the researcher knew she was very close to the store. Taxis, cars, and even bicycles have a difficult time parking close to the entrance of the store due to the strict control in the area because most of the surrounding buildings are offices of important companies (see Photos 2 and Photo 3).

Wal-Mart is set to continue its investments and expand rapidly in China. It will further increase procurement and support for the export of Chinese products; it will increase investment in the market particularly in West China in response to the central government policy of 'Developing the West'; it will create more employment opportunities and generate more tax revenue for the local economy; it will work closely with suppliers and help them to improve technological and managerial skills; and at the same time, the firm will introduce advanced retailing experience and techniques to improve the standard of the Chinese retail industry and encourage its development (Wal-martchina.com, 2006).

With China completing its full accession to the WTO in December 2004, Wal-Mart was able to accelerate its new store opening. The 50th store opened in China on 17 November 2005 at a Supercentre in Changsha, the capital of Hunan province (the researcher attended the opening ceremony), which was a landmark that had been achieved as part of Wal-Mart's organic roll-out programme of aiming to add 12 to 15 new stores per year (IGD, 2005a). By the end of the research period (2005), the company had 56 stores, including Sam's Club and neighbourhood stores in 28 cities in China.



Photo 1 Restricted parking for all vehicles, including bicycles. Wal-Mart Taiyuan Street branch, Shenyang, Liaoning province (taken by the author)



Photo 2 Restricted parking in office areas. Wal-Mart Jianguo Road branch, Beijing (taken by the author)



Photo 3 Wal-Mart Jianguo Road branch, Beijing (taken by the author)

Case B: Carrefour

Data collection procedures

Carrefour North China was contacted and the senior manager to be interviewed was introduced by the officer in CCFA.

Data collection of Carrefour with the above manager was conducted on 10 November 2005, between 13.30 and 14.30, Beijing.

Case study questions

The factors that influence Carrefour's expansion process in China:

Level 1: Questions to be asked of specific interviews

- A. Open questions: What are main factors that influence Carrefour's expansion process in China? How do these factors influence the expansion process?
- B. Are any other relevant factors also influential and important for Carrefour's expansion process in China?
- C. Probing questions: Point out any factor that is not mentioned in the open questions A and B.

Level 2: Questions to be asked of the individual case when appropriate

Case B: Why does Carrefour show rapid expansion process in China and how is this attained?

Outline of the case study report

- Brief background
- Expansion process
- Factors influencing the expansion process
- Other issues

Carrefour was founded in 1959; it is the biggest retailer in Europe and the second biggest in the world. The firm has 11,000 units and operates in 30 countries by June 2009. In 1995, the company opened its first hypermarket in China. Since the firm has accumulated knowledge about Chinese consumers by operating in Taiwan from 1989, it has been expanding quickly in mainland China. The firm opened its 60th store in Chongqing in 2005. By the end of 2005 Carrefour had 70 stores in 27 cities in the Chinese market (carrefour.com.cn, 2006).

‘Like many other firms, the WTO is an important factor that influenced Carrefour’s expansion in China. But it is not as important for Carrefour as for other firms. This is because Carrefour had already been in China for five years before China joined the WTO’ (Senior Manager, Carrefour, North China).

‘Governmental policies are very important to our expansion process. Our company seriously follows central government policies, particularly, Article 8. The reason why Carrefour did not strictly follow the central government’s policies at times was because the central government did not always provide clear rules. When the central governmental policies and regulations became clearer, the firm has started to follow these policies and regulations more strictly’ (Senior Manager, Carrefour, North China).

‘Carrefour has been benefiting from cooperation with local partners. Of course, local and regional policies are important, but they do not have any negative impact on our expansion, because we always maintain good relationships with local government’ (Senior Manager, Carrefour, North China).

Explanations for the above information need to be given. The reason why local policies do not have impact on Carrefour’s expansion process is because Carrefour has kept excellent relationships with local partners as one of its localization strategies. In this case, local governments have been supporting Carrefour’s expansion. However, due to the flexible culture of the firm, the company did not strictly follow the central government policies during the research period. When these policies were loose, the firm could escape from them. However, when the central government started to be stricter, no firm could violate their policies. Particularly after China’s entry into the WTO agreement, all the foreign retailers have sought equal opportunities.

In 2000, the central government investigated Carrefour’s stores that were opened without approval of the central government, and in the same year, the company suspended the plan of opening ten more stores. The central government seriously implemented the central governmental policies before joining the WTO agreement. Carrefour then officially drew up all the legal documents for the existing 27 stores in September 2002 (EMKT.com.cn, 2002). However,

Carrefour did not stop its rapid expansion after October 2002, and has gained the highest sales in China among foreign retailers (Rednet.com.cn, 2003).

Due to the high level of first-display fees charged by Carrefour, ten dry-fried snack companies in Shanghai stopped supplying the company (China News Net, 23 June 2003). It caused a big debate in the retail sector in China. The suppliers were not happy with Carrefour, because not only did the firm charge first-display fees, it also charged suppliers during both Chinese and French festivals when the goods can be sold more quickly. As a result, suppliers could not expect any high profit returns.

Suppliers compared Carrefour with Wal-Mart; the latter charges very small first-display fees and no fees are charged for any festivals. The behaviour of Carrefour was unacceptable to the Chinese suppliers to some extent and they hoped that the company would start to follow the conventions in the Chinese market and that the Chinese central government would notice the company's behaviour (China News Net, 23 June 2003). The case finally involved legal action with investigations under the Industrial and Commercial Department of the government. It also caused reactions in the academic world. The Dean of the International Business and Management Faculty of Shanghai Finance and Economics University said that the case was beyond the range of conflicts between industry and business and it raised the issue of how China's retail sector should proceed in perfecting the market economy (News Morning Newspaper, 4 July 2003).

Due to being overly flexible, Carrefour has learnt that there is a price to pay. Similar to charging display fees mentioned above, corruption and bribes also occurred in Carrefour's dealings when suppliers wanted their products to be displayed in Carrefour. In fact, they sometimes needed to pay money personally to managers who were in charge of the business. Between 25 June and 1 August 2007, Carrefour investigated seven City Purchase Centres regarding bribes, and 22 persons were subpoenaed, including 12 suppliers, and eight of them were formally detained (Xu, 2007).

Carrefour did support the central government regarding investments even though it did not seriously follow the central government rules in certain circumstances. In 2003, the company opened a supermarket in Xinjiang province in Northwest China following the central government's 'Go West' encouragement to develop the unexplored region (Beijing Reuters, 28 June 2003). Carrefour became the biggest foreign retailer in mainland China, partly as a result of its experience operating in Taiwan.

'Our company has rich and abundant international experience, accumulated from the 1960s, which is very important to our expansion in China. This special characteristic of our firm has played a significant role in our expansion and performance in foreign markets, including China' (Senior Manager, Carrefour, North China).

Having operated in foreign countries in the European market in the early stage of expansion and again with the experience gained in Taiwan, Carrefour has a better understanding of psychic distance in China compared with other Western retailers, which has helped the firm to expand rapidly in China.

'In order to better adapt to the Chinese retail environment and Chinese management culture, our company seriously considers the psychic distance between China and Western countries' (Senior manager, Carrefour, North China).

In order to satisfy the taste of Chinese customers, most Carrefour products in China are made in China. The firm has adopted effective localization strategies when expanding in China. It tries to build up stores in the centre of cities or in the centre of residential areas in order to provide convenience for Chinese customers who do not drive cars.

Managers of Carrefour China are very flexible when dealing with Chinese central and local governments. The characteristics and experience of decision-makers have positively contributed to the firm's rapid expansion. Carrefour believes that 'flexibility' is a key to success in international markets because of the different management styles and models in different countries around the world. The company believes that its strategies and methods need to be adapted to local requirements even though common core values remain the real foundation of the company (Euromonitor.com, 2003).

Carrefour has applied good location strategies in China. Most Carrefour stores are located in residential areas with convenient transportation systems. For example, one of their stores, near Beijing Zoo, is not in the centre of Beijing, but lots of residential districts surround it, with many buses terminating very close to the store. Abundant international experience has provided distinctive advantages for Carrefour's location choices – not only where to go in terms of different regions, but also where exactly to locate the store in a particular city. Carrefour always tries to locate their stores close to convenient transportation means for their customers, that is, taxi waiting spaces, bicycle parking, and car parking spaces, and most of their store locations also allow three-wheeled bicycle services. Furthermore, they are all close to local bus stops as well as close enough to certain residential areas for customers to walk to their stores easily. Photos 4–7 show several specific locations of Carrefour stores, which can be compared to those of Wal-Mart.

Overall, Carrefour's flexible management culture and localization strategies have contributed to its success in China. The most important reason why the company can stand firmly in the Chinese market is because it very much emphasizes the relationships with local governments, and develops its businesses by adapting to local government needs (according to the manager of the Global Purchase Centre in China). In addition, the establishment of Carrefour's Chinese Purchase Centres and a Chinese style distribution system have all gained the praise of local governments. The firm always adjusts its operational systems accordingly. In 2003, Carrefour decentralized the Chinese Purchase Centre into four regional purchase centres – Beijing, Shanghai, Guangzhou, and Wuhan – in order to set up a cross-country distribution network. Carrefour has been ranked at the top in China's market among all the foreign retailers, regarding its number of stores and sales revenues (Hebei Daily, 11 February 2003).

Case C: Metro Group

Data collection procedures

Metro Group was contacted and senior managers were interviewed. The attending of the 7th China Retail Industry Convention between 2 and 4 November 2005 provided opportunities to meet some senior managers. Another senior manager of Metro was introduced by a colleague working at a university, Middle China.



Photo 4 Car park availability. Carrefour Shuangjing store, Beijing (taken by the author)

Interviews were conducted on 3 November 2005 between 11.30 and 12.30 in Beijing, 3 November 2005 between 15.30 and 16.30 in Beijing, and 16 November 2005, between 15.30 and 16.40 in Changsha, Middle China.

Case study questions

The factors that influence Metro's expansion process in China:

Level 1: Questions to be asked of specific interviews

- A. Open questions: What are main factors that influence Metro's expansion process in China? How do these factors influence the expansion process?
- B. Are any other relevant factors also influential and important for Metro's expansion process in China?
- C. Probing questions: Point out any factor that is not mentioned in the open questions A and B.

Level 2: Questions to be asked of the individual case when appropriate

Case C: Why does Metro show slow expansion process in China and how is this attained?

Outline of the case study report

- Brief background
- Expansion process



Photo 5 Bicycle parking availability. Carrefour Shuangjing store, Beijing (taken by the author)



Photo 6 Taxi parking availability. Carrefour Shuangjing store, Beijing (taken by the author)



Photo 7 Three-wheeled bicycle parking availability. Carrefour Shuangjing store, Beijing (taken by the author)

- Factors influencing the expansion process
- Other issues

Metro Group was founded in Germany in 1964. Now the firm operates in 28 countries in the world and is the number one cash & carry system business worldwide. The firm entered China in 1995 as a joint venture with Jinjiang Group. Its first store opened in Shanghai in 1996 and it was the first JV to gain permission from the Chinese central government to set up chain stores in all the major cities in China.

Metro's entry to China has contributed to the Chinese retail industry and local economy through introducing a new retail format, providing professional training and employment opportunities, strict adherence to the country's laws, and paying high taxes to the local government. The firm also attracts customers from outside the cities and distributes local products to domestic and international markets via its national and international distribution system. By the end of 2005, the company had 29 stores in China and it planned to open up to 40 stores in the following three to five years. By October 2010, Metro had 43 outlets in 34 Chinese cities (Metro.com.cn, 2006).

The changes in government policies, including China's entry into the WTO agreement, have increased the speed of Metro's expansion process in China.

'The changes in governmental policies, including China's entry into the WTO increased the speed of our expansion. Our Chinese expansion started with China's entry into the WTO. China's retail sector has been growing rapidly since. Without China joining the WTO, there wouldn't have been much going on in China's retail sector' (Senior Manager A, Metro, North China).

Managers in Metro have a conception that the central government policies are the core basis of local government policies as well as other agreements and regulations, and China's joining the WTO can be seen as a part of the central government policies.

'Governmental policies are very important for our expansion process. In fact, the WTO agreement showed how important governmental policies are for expansion here. Every foreign retailer must follow central government policies, which is the basis for any expansion in China by foreign retailers' (Senior Manager A, Metro, North China).

The serious and sincere German culture has influenced Chinese managers in the firm and it also has an impact on the ways that the company deals with local governments and further with their expansion process.

'Our foreign managers are very discreet and careful. They never cross the boundary by challenging governmental policies unlike the French. For example, German managers feel that they are losing face if a tax officer finds out anything wrong in the firm. We have a different way of dealing with local government, which is by doing work in a careful and conscientious way' (Senior Manager, Metro, Middle China).

Competitive advantages have contributed to Metro's expansion process in China. However, in Metro, Chinese managers were not involved in the decision-making process for expansion strategies during the research period.

'Our expansion strategy does not really involve Chinese managers, the Chinese executive of our company is mainly responsible for developing and adjusting the relationships between the governments and the firm; this however is vital for the company's expansion and development across China' (Senior Manager B, of Metro, North China).

As an experienced retailer, Metro realized that it is important to localize in China and gradually the company also realized the distinctive roles that local managers play during the expansion process.

'Localization is a steady process, and our understanding [of the local market] changes during this process. For example, we have now started to get Chinese managers involved in the senior levels of management. Otherwise, the localization process would be very slow, as Western managers do not know as much about Chinese culture, management style and consumer behaviour as local Chinese managers do' (Senior Manager, Metro, Middle China).

However, due to lack of experience in China's market, Metro has shown conservative attitudes towards further expansion. Lack of knowledge of Chinese management systems and customers also played a negative role in the firm's expansion in the market.

'Psychic distance plays a significant role in our expansion. The important decision-makers for our expansion plans are from Germany. Due to the cultural differences, they sometimes have particular views on Chinese culture. These could hold the firm back during the expansion process' (Senior Manager A, Metro, North China).

'Psychic distance issues significantly influenced our expansion in China. For example, our managers are too discreet. The firm therefore has lost lots of opportunities to expand, and now the firm is having to adjust its understanding of psychic distance and is going to expand more rapidly' (Senior Manager B, Company C, North China).

Like any other firm, Metro has recognized the distinctive characteristics of China's market and what should be further considered when expanding.

'In particular, China has been seen as different markets, because people from different regions have different preferences and different buying behaviours, which need to be considered especially by foreign retailers when opening stores in different regions in China. Food retailers particularly need to understand the unique culture, tastes and shopping habits of different customers in different regions in China. Therefore, a deep knowledge of China's market regarding different provinces and regions is essential for our expansion' (Senior Manager B, Metro, North China).

Metro stores have their own procedures as to how to locate in each city. In order to suit wholesale as well as membership purchases, most of the stores are located close to residential areas; however, it is not necessary for Metro stores to situate in crowded areas because most of the customers who do wholesale shopping have got cars and others members who do individual shopping at times also drive along or live relatively close. The company provides sufficient car parking for customers (see Photo 8).

The goal of Metro is to be as close as possible to its customers, suppliers, and employees and to speed up its expansion in China. In 2002, the company established business units in North, East, South, and Central China (Metro.com.cn, 2006).

Case D: Tesco

Data collection procedures

Tesco was contacted. The attending of the 7th China Retail Industry Convention between 2 and 4 November 2005 provided opportunities to meet some senior managers. An interview with a senior manager was arranged at the end of 2005



Photo 8 Car park availability. Metro Hongshan store, Wuhan, Hubei province (taken by the author)

in England. It was finally conducted on 28 December 2005, between 14.00 and 15.30, in Hertfordshire, England.

Case study questions

The factors that influence Tesco's expansion process in China:

Level 1: Questions to be asked of specific interviews

- A. Open questions: What are main factors that influence Tesco's expansion process in China? How do these factors influence the expansion process?
- B. Are any other relevant factors also influential and important for Tesco's expansion process in China?
- C. Probing questions: Point out any factor that is not mentioned in open questions A and B.

Level 2: Questions to be asked of the individual case when appropriate

Case D: Why does Tesco show rapid expansion process in China and how is this attained?

Outline of the case study report

- Brief background
- Expansion process

- Factors influencing the expansion process
- Other issues

Tesco is one of the leading international retailers in the world. The trading name of Tesco was used in the 1920s; since then the firm has expanded into different formats, markets, and sectors. The principal business of the group is food retailing with over 2,500 stores worldwide. The firm's long-term strategy of growth is to grow the core UK business and to expand internationally.

The firm now has stores in 13 countries worldwide. In 2004, after a three-year market investigation, Tesco entered China by signing a 50:50 JV agreement with a Taiwanese supermarket (Ting Hsin), for its wholly-owned subsidiary Ting Cao, which owns the Hymall chain stores in China. Hymall was first opened in 1998 and is a leading hypermarket, focusing on Northeast and East China. It had 25 stores before the JV with Tesco. In 2005, Tesco and Hymall had 39 stores across the country (Tescocorporate.com, 2006).

The expansion process is not easy and Tesco looks at the problems during the process as fairly as possible because the company believes that international retailers may face a similar situation when expanding abroad.

'At times, our company faces a similarly difficult situation in China to that in other countries: we could not open stores in some of the locations we wanted. This however happens in every country, it happens in China too. We have local teams who understand local culture better ... We are still doing business as a local store with a local name (in China)' (Senior Manager, Company D, UK).

Tesco emphasizes localization and local teams are empowered to manage and make expansion decisions.

'Local teams are empowered to make decisions regarding the opening of new stores, because the investigation of the local market is so important to our expansion ... We are still doing business on the basis of being a local store with the local name (Legou – Hymall, in China)' (Senior Manager, Tesco, UK).

Tesco benefits from the competitive advantages and international experience gained from other international markets.

'We have been very successful in Turkey, Korea, and Thailand. We employ local managers, and local teams always serve local customers. We also do a bit of wholesale, but we mainly run retail businesses. We can compete with Metro in many respects, and many customers also do a small amount of shopping in Metro; Metro therefore is to some extent a retail store too. We have the capability to compete with any company. Wal-Mart did not choose good locations in Shanghai; this is even true for the whole Chinese market. We have focused on Beijing, Shanghai and Guangzhou and the cities around, where we can benefit the most from co-operating with our local partners' (Senior Manager, Tesco, UK).

Due to successful operations in other Asian countries such as Korea, Tesco has learnt about many aspects of Asian culture and realized that psychic distance needs to be noted.

'Guanxi is not that hard for us to understand and deal with and we believe that the situation of a *guanxi* network is becoming less and less important. We employ local management teams to deal with *guanxi* networks. In Korea, we had success although Korean people also focus on relationships in a different way. We employ local teams in Korea too. We don't see gifts as a bribe, and we quite often offer small gifts to our partners and local governments to express our appreciation. In Japan, Malaysia, and Korea people do the same' (Senior Manager, Tesco, UK).

Tesco at the time of this research was steadily expanding in China's market. It realizes that China should be seen as various markets due to unique cultures in different regions.

'It is not easy to expand quickly if we have not an efficient distribution system. Tesco builds business based on economy of scale; therefore, we need a distribution network [ready] as a basis before we start any expansion. Consumers are so unique in different parts of China. For example, the taste in Guangzhou in the South is very different from that of Shenyang in the Northeast of China. We are expanding but we are taking gradual steps based on the three main cities (Beijing, Shanghai and Guangzhou). The second-tier cities are also important to our company, but we are not in a hurry to expand too quickly. We prefer not to build hypermarkets in smaller cities, as we believe that being local and small is more efficient there' (Senior Manager, Tesco, UK).

Tesco also intends to support the Chinese central government's 'Go West' policies; however, since it has not been in China's market for long, the firm would prefer to take secure steps in its process forward.

'People also talk about the "Go West" project in Tesco such as going to Chongqing, Southwest China. We will open stores there eventually, but we need to be expanding in a stable way. To grow, we need more investment in IT and distribution systems. We entered China a bit later than some other foreign retailers, but we believe that it should never be too late' (Senior Manager, Tesco, UK).

Tesco entered China much later than its international competitors. The company had good opportunities to do investigation and buying Hymall provided Tesco direct access to local knowledge (IGD, 2005a). In a member check process, the researcher was told by the above interviewee that Tesco had increased its stake in the partnership to 90 per cent in December 2006 and had 49 stores in mid-2007. It opened the first Tesco Le Gou store in Beijing in January 2007 and plans to convert the existing Hymall stores to this name in due course. By September 2010, Tesco had 82 hypermarkets, 11 convenience outlets, and three life-space malls in China. Tesco is currently focusing on three regions, that is, the North, South and East China, not the West.

Case E: Heiwado

Data collection procedures

Heiwado was contacted before the researcher's trip from England to China, and an interview with a senior manager was conducted on 18 November 2005 between 10.00 and 11.30.

Case study questions

The factors that influence Heiwado's expansion process in China:

Level 1: Questions to be asked of specific interviews

- A. Open questions: What are main factors that influence Heiwado's expansion process in China? How do these factors influence the expansion process?
- B. Are any other relevant factors also influential and important for Heiwado's expansion process in China?
- C. Probing questions: Point out any factor that is not mentioned in the open questions A and B.

Level 2: Questions to be asked of the individual case when appropriate

Case E: Why does Heiwado show no expansion process in China and how is this attained?

Outline of the case study report

- Brief background
- Expansion process
- Factors influencing the expansion process
- Other issues

The Japanese Department Store, located in the capital of Hunan province, Changsha, is the only Sino-foreign joint venture enterprise in Hunan province, Middle-South China. The firm was founded in 1998 by the cooperation of the International Economy Development Group, Hunan Province (40 per cent), the Japanese Department Store Ltd. (56 per cent) and Japanese Xiaoquan Clothing Co. Ltd. (4 per cent) (Hnrd.gov.cn, 2006).

The Japanese Department Store contributes to the commercial industry of Hunan province by providing a special store layout, a comfortable purchase environment and good customer services (Csonline.com.cn, 2006). The firm has tried to expand in China also; however, their second store encountered considerable problems and the expansion plan was temporarily suspended. The firm only had one store in China by the end of 2005, which was the only one that operates outside Japan.

Although the firm has advanced management skills, it could not implement its expansion plans because of government control and other political reasons.

'We did try to open another store and to expand in China, but it failed at the end due to problems with our joint party, which is a Chinese firm. There were lots of hidden reasons why the failure occurred, which could not be told to outsiders. The firm lost huge amounts of money due to this failure, and since

then we have been taking expansion very carefully. As a result, no further action has been taken so far regarding expansion' (Senior Manager, Heiwado, Middle China).

Government policies had an important impact on the Japanese Department Store's expansion in China's market.

'Our expansion in China is greatly influenced by government policies. In particular, the history of political relations between Japan and China during the wars means there are sensitive political issues for Japanese businesses operating in China to deal with today. It is vital for our expansion in China to build good relationships with Chinese firms, and with local and central governments' (Senior Manager, Heiwado, Middle China).

There are still barriers that have been set up for businesses between Japan and China, resulting from the problems between the two countries in the war period. For example, Japanese products are at times prohibited when there is a students' demonstration march, particularly on the commemoration dates when Japan attacked China in the past. For similar reasons, some local governments give less support to Japanese companies than to European and American ones. However, this company believes that the importance of government policies has become less over the course of time.

'Local and central governmental policies are also important, but these policies were particularly important at the beginning when they were first introduced, and less so now after they have been in place for some time, because all the companies are then in the same position. When the regulations are applied to all, we cannot rely on any special beneficial policies for our expansion. We need to make the most of the other advantages we have got' (Senior Manager, Heiwado, Middle China).

The firm's and decision-makers' characteristics have significantly influenced Heiwado's expansion process in China's market.

'Firm's characteristics and competitive advantages are also very important for our expansion. Particularly, the characteristics of the people who make the decisions are very important for our expansion. Japanese managers are very careful, discreet and conscientious, and thus the firm's expansion has been taken very slowly ... We are looking for appropriate opportunities to open more stores, but due to the failure last time (caused by the Chinese partner), our management teams are now especially discreet when it comes to expansion' (Senior Manager, Heiwado, Middle China).

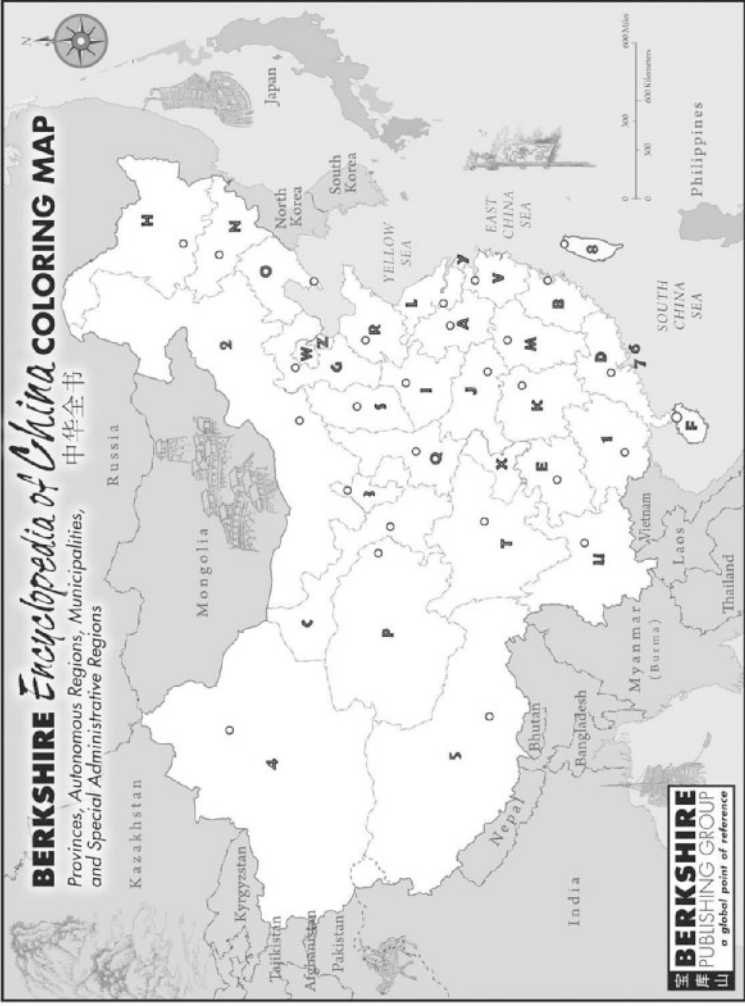
In terms of location choices, the firm takes political factors into account. It prefers support from the local governments when expanding.

'Operating as a department store, we are facing different kinds of competition in China, because this format is not a modern retail format in China

anymore, and the format faces lots of challenges from one-stop shopping malls as well as supermarkets, which also sell non-food products. On the basis of this thinking, in order to stand steady in one region then another, our expansion direction will be around Hunan provinces like Hubei and Jiangxi. Not only is this because we have a store near these regions, but also because in these regions, department stores are not out of date yet due to the slower economic development compared to the rapid developing areas like East or South China. After having had a strong foundation in these regions, we may consider going further afield to expand in other provinces and regions' (Senior Manager, Company E, Middle China).

'The firm needs to expand from its central foundation and distribution system. We believe that that if our company does not have a big network, it will not expand quickly. The local government of Hunan province has given lots of support to Heiwado's establishment, operation and development; therefore, the firm has fixed Hunan as its future expansion centre' (Senior Manager, Heiwado, Middle China).

Appendix 6 Map of China



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Appendix 7 China's provinces, autonomous regions, centrally administered municipalities and special administrative regions

Name	Seat of government	Area (10,000 sq km)	Population* (10,000 persons)
East China			
Anhui Province (A)	Hefei	13.90	6410
Jiangsu Province (L)	Nanjing	10.26	7406
Shanghai Municipality (Y)	Shanghai	0.62	1711
Zhejiang Province (V)	Hangzhou	10.18	4680
North China			
Beijing Municipality (W)	Beijing	1.68	1456
Hebei Province (G)	Shijiazhuang	19.00	6769
Inner Mongolia Autonomous Region (2)	Hohhot	118.30	2380
Tianjin Municipality (Z)	Tianjin	1.13	1011
Shanxi Province (S)	Taiyuan	15.60	3314
Shandong Province (R)	Jinan	15.30	9125
Northeast China			
Heilongjiang Province (H)	Harbin	46.90	3815
Jilin Province (N)	Changchun	18.70	2704
Liaoning Province (O)	Shenyang	14.57	4210
Middle China			
Hainan Province (F)	Haikou	3.40	811
Henan Province (I)	Zhengzhou	16.70	9667
Hubei Province (J)	Wuhan	18.74	6002
Hunan Province (K)	Changsha	21.00	6663
Jiangxi Province (M)	Nanchang	16.66	4254
South China			
Fujian Province (B)	Fuzhou	12.00	3488
Guangdong Province (D)	Guangzhou	18.60	7954
Guangxi Zhuang Autonomous Region (1)	Nanning	23.63	4857
West China			
Chongqing Municipality (X)	Chongqing	8.20	3130
Guizhou Province (E)	Guiyang	17.00	3870
Sichuan Province (T)	Chengdu	48.80	8700

(continued)

Continued

Name	Seat of government	Area (10,000 sq km)	Population* (10,000 persons)
Xizang (Tibet) Autonomous Region (S)	Lhasa	122.00	270
Yunnan Province (U)	Kunming	39.40	4376
Northwest China			
Gansu Province (C)	Lanzhou	45.00	2603
Ningxia Hui Autonomous Region (3)	Yinchuan	6.64	580
Qinghai Province (P)	Xining	72.00	534
Shaanxi Province (Q)	Xi'an	20.50	3690
Xinjiang Uygur Autonomous Region (4)	Urumqi	160.00	1934
Others			
Hong Kong Special Administrative Region (6)	Hong Kong	0.1092	680 mid-2003
Macao Special Administrative Region (7)	Macao	0.0024	45 mid-2003
Taiwan Province (8)	Taipei	3.60	2261

Source: Estudychinese.com, 2008 and the author* at the end of 2003.

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