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## Full Length Article

## Firm resources, cultural distance and simultaneous international expansion in the retail sector

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## ABSTRACT

Despite the fact that many firms simultaneously expand into multiple new markets, we know very little about why firms choose this type of international expansion instead of sequentially entering new markets. Drawing on the resource-based view (RBV) we argue that in order to engage in simultaneous international expansion firms have to be able to draw on intangible assets, be financially strong, and have international experience that will enable them to reduce and/or shoulder the strains on managerial resources, time compression diseconomies and costs of simultaneously entering multiple new overseas markets. We further expect the strength of these associations to be moderated by the cultural distance between a firm's home country and newly entered countries. Our analysis of the international expansion of the sales operations of 102 retailers over the period 2003–2012, during which these retailers sequentially or simultaneously entered into a total 836 overseas markets, largely supports our hypotheses. Our study underlines the usefulness of the RBV for understanding simultaneous international expansion as an important phenomenon that has received only scant scholarly attention to date.

## 1. Introduction

There has been growing interest in the internationalisation of retailers (Alexander & Myers, 2000; Swoboda, Zentes, & Elsner, 2009; Treadgold, 1988; Treadgold, 1990) as a result of the particular characteristics of retail internationalisation that are seen as limiting the applicability of insights generated on the basis of the internationalisation of manufacturing firms (Burt & Carralero-Encinas, 2000; Dawson, 1994). Key among these characteristics is the simultaneity of production and consumption of retailers' services (Boddewyn, Halbrich, & Perry, 1986; Bouquet, Hebert, & Delios, 2004). As a result, unlike manufacturers, retailers cannot export their services and have to be physically located where their customers are, requiring retailers to establish store networks in, transfer retail formats to, and thus embed themselves in a multitude of potentially highly different environments (Burt, Johansson, & Dawson, 2016; Coe & Lee, 2013; Currah & Wrigley, 2004; Dawson & Mukoyama, 2014a; Dawson, 1994; Huang & Sternquist, 2007; Wood et al., 2016). Their direct interaction with the end customers also increases retailers' exposure to the differences in customer needs and preferences across countries (Bianchi & Ostale, 2006; Burt, Johansson, & Thelander, 2010; Burt, Johansson, & Thelander, 2011; Evans & Bridson, 2005).

As a consequence of the restricted choice of foreign market servicing

modes, their (forced) geographical dispersion, and their high levels exposure to different consumer preferences, research has highlighted, for instance, the idiosyncratic nature of retailers' internationalisation strategies (Goldman, 2001; Rugman & Girod, 2003), their foreign market selection (e.g., Alexander, Rhodes, & Myers, 2007; Gripsrud & Benito, 2005; Swoboda, Schwarz, & Hälsig, 2007), their choice of foreign market entry strategy (Cliquet & Burt, 2011; Gielens & Dekimpe, 2007; Huang & Sternquist, 2007; Swoboda, Elsner, & Olejnik, 2015), and their foreign divestments (e.g., Alexander & Quinn, 2002; Bianchi, 2006; Burt, Dawson, & Sparks, 2004; Mellahi, Jackson, & Sparks, 2002). Research has also highlighted the rapid internationalisation of retailers in various segments, such as, for example, cash and carry retailing (Burt, 2014), department stores and supermarkets (Choi, 2014), and fashion retailing (Bhardwaj & Fairhurst, 2010; Tokatli, 2008). Research has begun to identify the determinants of retailers' internationalisation speed (Gielens & Dekimpe, 2007; Mohr & Batsakis, 2014) or retailers' foreign entry timing (Huang & Sternquist, 2007). Yet, anecdotal and case-based evidence not only suggests that many retailers rapidly expand into overseas markets, it also shows that retailers often engage in simultaneous international expansion and enter new markets in a short period of time, i.e. within a single calendar year (e.g., Birchall, 2008; Dawson & Mukoyama, 2014b; Lopez & Fan, 2009; Swoboda et al.,

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2007). Lopez and Fan (2009) and Dawson and Mukoyama (2014b), for example, respectively report, how fashion retailers Zara and H&M repeatedly entered multiple new markets within a single year. However, despite this evidence for retailers' simultaneous international expansion, we know little about the conditions that enable retailers to expand in this way. Although prior research has discussed simultaneous internationalisation focusing on firms' introducing new products in multiple existing overseas markets (e.g., Swoboda, 2002), there exists very little research about simultaneous establishment of outlets in multiple new markets by retailers.

We suggest that as a result of the particular characteristics of retail internationalisation, i.e., the restricted choice of foreign market servicing modes, their greater geographical dispersion, and their high levels of exposure to different consumer preferences, expanding simultaneously requires significant resources, both tangible, such as financial resources; but also intangible resources, in particular intangible assets and international experience. Prior research into retail internationalisation has underlined the role that retailers' resources and competencies play (e.g., Bianchi, 2009; Currah & Wrigley, 2004; Dawson & Mukoyama, 2014b; Lowe & Wrigley, 2010; Picot-Coupey et al., 2014; Vida, Reardon, & Fairhurst, 2000). As a consequence prior research into retail internationalisation has drawn on the resource-based view (RBV) (Bianchi, 2009; Cao & Dupuis, 2009; Elsner, 2014; Mohr & Batsakis, 2014), while other theories explaining the internationalisation of firms, mainly developed to explain the internationalisation of manufacturing firms, have been argued to be of limited use in explaining retail internationalisation (Dawson, 1994).

In line with this prior research we draw on the RBV to derive and empirically test hypotheses regarding the relationship between various resources and the simultaneous international expansion of retailers. The development of the RBV with regard to explaining firm internationalisation (e.g., Sethi & Guisinger, 2002; Tan & Mahoney, 2005) is at an advanced stage of theory development, characterised by well-developed constructs and prior empirical support for its main tenets. Under such conditions, prior research can aid the development of insights into a phenomenon and recommendations for methodological fit suggest deductive, hypothesis-testing, quantitative research as most effective approach for studying a phenomenon (e.g., Edmondson & McManus, 2007). Whereas much of the prior research into retail internationalisation has employed case-based research, quantitative empirical analyses based on large samples remain under-represented in research on international retailing (e.g., Elsner, 2014; Swoboda et al., 2009).

Specifically, we draw on RBV-logic to argue that simultaneous international expansion will be associated with retailers' possession of intangible assets, their financial strength, as well as their international experience. First, because of retailers' direct contact with end customers, prior research has underlined the role of intangible assets, in particular, strong retail brands for retailers' ability to expand across borders (Bianchi, 2009; Buckley, Pass, & Prescott, 1992; Swoboda, Berg, & Dabija, 2014). While a strong brand is thus important when entering an individual foreign market, its importance increases when simultaneously expanding into multiple new overseas markets. Intangible assets are generally regarded as central in overcoming firms' liability of foreignness when expanding overseas (Delios & Beamish, 2001; Zaheer, 1995), and, all else being equal, such assets are thus likely to be positively related to a retailer's ability to engage in simultaneous international expansion. Our first research question is thus: (1) *What is the relationship between retailers' intangible assets and their simultaneous international expansion?*

Second, retailers' limited choice in terms of market servicing mode and their need to locate in geographic proximity to their customers raises the financial resources required for retailers' international expansion (Doherty, 2007; Elsner, 2014; Pederzoli, 2006). We suggest that, *ceteris paribus*, the need for financial resources is higher for retailers' simultaneous entry into multiple new overseas markets than for

their sequential entry into different markets. Retailers that are financially strong are therefore better able to simultaneously expand into multiple new markets than financially weak retailers. Retailers' financial strength is thus likely to be a key driver behind their choice of simultaneous over sequential expansion into new markets. Our second research question is thus: (2) *What is the relationship between retailers' financial strength and their simultaneous international expansion?*

Third, prior research on firm internationalisation in general has highlighted the importance of prior international experience for firms' ability to expand internationally (e.g., Clarke, Tamaschke, & Liesch, 2013; Erramilli, 1991; Jiang, Beamish, & Makino, 2014). Because of their need to locate close to customers and the associated greater geographic spread of retailers, this prior experience of operating overseas is likely to be of even greater importance to internationalising retailers (Gielens & Dekimpe, 2001; Lu, Karpova, & Fiore, 2011; Mohr & Batsakis, 2014; Mohr, Fastoso, Wang, & Shirodkar, 2014; Segal-Horn & Davison, 1992; Swoboda et al., 2015). Such international experience is likely to improve retailers' ability to deal with the particular challenges of simultaneous international expansion into new markets. Our third research question is thus: (3) *What is the relationship between retailers' international experience and their simultaneous international expansion?*

Finally, because of the direct exposure to their end consumers retailers are particularly subject to the differences in shopping and consumer preferences across these countries that require adjustments of, for example, their retail format(s) (Bianchi & Ostale, 2006; Bianchi, 2006; Goldman, 2001) and their marketing mix (Bianchi, 2009; Burt et al., 2011; Wigley & Chiang, 2009). This heightened exposure and the associated need for adjustments are compounded when retailers expand simultaneously into multiple new countries because in such cases retailers will face multiple cultural distances between the respective host countries and their home country. High cultural distance will therefore increase the usefulness and thus importance of a retailer's resources in avoiding and overcoming the challenges associated with entering multiple new markets simultaneously. The fourth research question we address is therefore: (4) *Does cultural distance affect the relationships between retailers' intangible assets, financial strength and international experience and their simultaneous international expansion?*

By addressing these four research questions we contribute to a better understanding of simultaneous international expansion as an important but so far under-researched phenomenon. Despite the importance of simultaneous international expansion for retailers (e.g., Birchall, 2008; Swoboda et al., 2007), prior research provides little insight into the conditions under which retailers engage in this type of international expansion. Additionally, we contribute to the development of RBV logic to explain the internationalisation of firms both, by focussing on RBV logic to explain an under-researched facet of firm internationalisation and by accounting for the contingent nature of this logic in the context of simultaneous international expansion.

## 2. Theory and hypothesis development

Drawing on RBV-logic we suggest that intangible assets, financial strength and international experience will be associated with retailers' simultaneous internationalisation because these resources enhance retailers' ability to deal with the particular challenges of simultaneous international expansion. First, simultaneous international expansion puts significant *strains on managerial resources*. Case studies of internationalising retailers highlight the complexity of decisions and the intensive involvement of different groups of managers, in particular, CEOs and expansion managers, in the process of internationalisation (e.g., Swoboda et al., 2007). Given retailers' enhanced need for local embeddedness reflected in the required adjustment of retail formats and various dimensions of their marketing mix, assessing the need for and implementing this localisation is both of crucial importance and resource-intensive (Bianchi & Ostale, 2006; Bianchi, 2006; Burt et al.,

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