MARKETING

DOES HOST COUNTRY CULTURE AFFECT FOREIGN RETAILER PERFORMANCE?

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Abstract: Using Hofsede's framework of national cultural orientation, we examine whether cultural values can explain foreign retailer performance. Our results show that host country individualism and uncertainty avoidance are negatively related while host country indulgence is positively related to foreign retailer performance. We also point to theoretical and practical implications of our research.

Keywords: Retailer performance, national culture, Hofstede.
JEL: M30.

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INTRODUCTION

Establishing operations beyond a firm's national borders has become imperative for its continued growth and access to new, and often underserved, markets. Hence, not surprisingly, retailers have sought expansion opportunities abroad. But international retailing is fraught with much more uncertainty than international manufacturing because retailers are embedded in the environment in which they operate, thus being under constant pressure to comply with various external forces such as government rules and regulations, in addition to host market culture and traditions. This makes retail internationalization (RI) a particularly challenging task. And since even international retailer powers such as Wal-Mart, Carrefour, and Tesco, which have substantial experience running foreign retail operations have failed abroad, RI as well as the factors determining the success and failure of international retailers is a research topic that has drawn the interest of international marketing scholars (Chan, Finnegan, and Sternquist 2011; Evans, Tredgold, and Mavondo 2000; Gielens and Dekimpe 2001; Vida 2000). The focus of much of this research has been on investigating the relationship between the performance of international retailers and the selected foreign entry mode and strategy employed in different foreign markets, firm-specific factors, the degree of geographic diversification employed, and the psychic distance, which refers to perceived home-host country differences in culture, language, business practices, and existing institutions (Johanson & Vahlne, 1977), between a retailer's home and host market (Assaf, Josiassen, Ratchford, & Barros, 2012; Colton, Roth, & Bearden, 2010; Dimitrova, Rosenbloom, & Andras, 2014; Gielens & Dekimpe, 2001). However, what is lacking is research studying the interplay between host country characteristics and the performance of international retailers, especially given that retail institutions are largely affected by a multitude of macro-environmental factors. One of these factors is national culture which essentially determines consumer shopping habits and, hence, consumers' decision which stores to patronize. It has in fact been shown that national cultural values have important implications for the number and size of retailers existing in a given country (Dimitrova, Rosenbloom, & Andras, 2016). We thus believe

that national culture can also influence the performance of international retailers. The purpose of our research is hence to empirically investigate the relationship between national culture and foreign retailer performance. To do so, we use a panel dataset comprised of thirteen European retailers during the period 2001-2015.

Our study is particularly relevant to international retail managers. Specifically, the issue of understanding host market forces affecting foreign retailer performance is crucial as international retail chains continue to expand their operations beyond their national borders. According to the 2016 Global Powers of Retailing Report published annually by Deloitte Touche Tohmatsu Limited, the top 250 global retailers have annual aggregate sales of over $4.5 trillion, their average size, as measured by sales volume, is $17.9 billion, and they operate in 10 countries, on average. This means that a great deal is at stake for these retailers. So, in order to devise effective retail strategies for each host country, international retail managers need some insight into the implications of national culture on performance. In particular, they need to know how national culture, a major determinant of consumer shopping patterns, affects foreign retailer performance as well as whether different national cultural values have a unique impact on foreign retailer performance. A better understanding of such a relationship can also facilitate foreign market selection when international retailers are considering expansion opportunities abroad.

BACKGROUND LITERATURE

Retailer performance

Retailer performance has attracted scholarly interest, especially in the context of international retailing. In particular, studies to date have examined mainly the impact of foreign entry mode strategy (i.e., scale and timing of entry), retailer characteristics, and retail strategy/adaptation on the performance outcomes of retailers that operate across national borders (Assaf et al., 2012; Colton et al., 2010; Gielens & Dekimpe, 2001). The relationship between psychic distance as well as the degree of geographic diversification and retailer performance has also been examined (Dimitrova et al., 2014; Evans & Mavondo, 2002; Evans, Mavondo, & Bridson, 2008; Evans, Tredgold, & Mavondo, 2000; Mohr, Fastoso, Wang, & Shirodkar, 2014). But surprisingly, studies to date have not investigated how host

country macro-environmental factors affect the performance of international retailers. This is a considerable gap in the literature because the success or failure of international retailers is largely determined by the extent to which these retailers can accommodate the environment (i.e., socio-cultural, political/legal, economic, technological) within which they operate. Even more specifically, since shopping patterns in every society are influenced by consumers' cultural values and traditions (Dimitrova et al., 2016; Hino, 2010), national culture has important implications for foreign retailer performance.

National culture

National cultural values "reflect the different solutions that societies evolve to the problems of regulating human activities [and] the different ways that institutional emphases and investments are patterned and justified in one culture compared with another" (Schwartz 1994, p. 92). National culture thus has important implications for consumer behavior because it drives consumer tastes, preferences and shopping behavior, thus affecting consumer store choice.

Considering the context of our study, we employ Hofstede's national cultural value framework because: (1) this framework is related to value-based factors that directly affect purchase decisions and (2) the framework has previously been employed by scholars studying the role of national culture in marketing (Griffith & Rubera, 2014; Rubera, Griffith, & Yalcinkaya, 2012). Although six national cultural dimensions have been identified by Hofstede, we focus only on the cultural dimensions that are theoretically related to the research phenomenon examined herein (Hofstede, 1983), mainly individualism vs. collectivism, uncertainty avoidance, and indulgence vs. restraint. Based on prior research (De Mooij, 2010; De Mooij & Hofstede, 2002; De Mooij & Hofstede, 2011), we believe that these dimensions affect consumption behavior in general, and consumer shopping patterns and store choice in particular, which makes them appropriate to use, given the purpose of our study.

Individualism vs. collectivism describes the relationship between the individual and the group (Hofstede, Hofstede, & Minkov, 2010; Hofstede, 2001). Individualism is in fact a product of modernity (Hofstede, 1991). That is, the purpose of modern economic and political institutions as

well as the establishment of free market economies is to provide incentives to and reward the individual rather than the group (van Ittersum & Wong, 2010). People in individualistic societies thus tend to value personal time and freedom and strive to be unique, thus differentiating themselves from, rather than belonging to, other societal members (Gurhan-Canli & Maheswaran, 2000; van Ittersum & Wong, 2010). Uncertainty avoidance refers to the degree to which societal members are uncomfortable with uncertainty and ambiguity and how well they manage uncertain future (Hofstede, 2001). People in high uncertainty avoidance cultures are less open to innovation, do not like to take risks, and follow strict codes of belief and behavior (De Mooij, 2010; De Mooij & Hofstede, 2011; Hofstede et al., 2010). Societies that score high on the indulgence vs. restraint dimension allow relatively free gratification of basic and natural human drives related to enjoying life and having fun (Hofstede et al., 2010). People in these societies thus tend to be more content and optimistic. Indulgent cultures are also wealthy, open to foreign influences, and are actively involved in leisurely activities (Hofstede et al., 2010).

HYPOTHESES

The impact of individualism on foreign retailer performance

People in individualistic societies value personal time, freedom as well as social differentiation (Hofstede et al., 2010; Hofstede, 2001) (Gurhan-Canli & Maheswaran, 2000; van Ittersum & Wong, 2010). Moreover, people in individualistic societies value innovations and seek to purchase novel products, which allow them to express their uniqueness. Individualistic societies also seek variety when shopping (Erdem, Swait, & Valenzuela, 2006). Consumers in individualistic societies should thus be open to shopping in foreign retail stores because: (1) foreign retailers would essentially be conceived of as an innovation, compared to local retailers, (2) foreign retailers offer a wide assortment of novel products, and (3) foreign retailers generally provide different shopping experience, which would appeal to individualistic consumers' desire for uniqueness and social differentiation. Therefore, we argue that individualism should be positively related to foreign retailer performance.

H1: Host country individualism is positively related to foreign retailer performance.

The impact of uncertainty avoidance on foreign retailer performance

People in high uncertainty avoidance cultures look for signals that allow them to decrease the uncertainty in a given consumption situation (Akdeniz & Talay, 2013; Roth, 1995). Consumers in such cultures are thus less likely to try new and innovative products because they view such products as being risky to use. Foreign retailers could thus be perceived as not being reliable because they are new to the market and hence, bringing uncertainty into the consumption situation. We thus argue that consumers in high uncertainty avoidance cultures will avoid patronizing foreign retailers, thus negatively affecting foreign retailer performance. Hence:

H2: Host country uncertainty avoidance is negatively related to foreign retailer performance.

The impact of indulgence on foreign retailer performance

Because people in indulgent cultures tend to be open to foreign influences and seek gratification related to enjoying life and satisfying desire (Hofstede et al., 2010), they should be prone to shopping in foreign retailers. First, due to their experience operating across multiple countries, foreign retailers often offer superior shopping experience than domestic retailers (e.g., improved layout, wider product assortment), which should draw consumers in indulgent cultures who would be looking for enjoyment, as opposed to just pure utilitarian consumption, while shopping. Second, as people in indulgent cultures are open to foreign influences, patronizing foreign stores would allow them get exposure to foreign products as well as foreign shopping experiences brought about by foreign retailers operating in the given host country. We thus argue:

H3: Host country indulgence is positively related to foreign retailer performance.

METHODOLOGY

Sample

The sample for the study consists of thirteen European retailers listed in Table 1. The data covers the period 2001-2015. We decided to focus on these retailers because they are among the largest retailers in Europe that have expanded substantially beyond their home market in

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countries within as well as outside Europe. We thus believe that our results would be more generalizable.

Table 1.
List of sampled retailers and country of origin

Retailer	Country of origin
Ahold Delhaize	Netherlands
Aldi	Germany
Auchan	France
Carrefour	France
Casino	France
Leclerc	France
Marks & Spencer	Great Britain
Rewe Group	Germany
Metro Group	Germany
Mercator	Slovenia
SPAR International	Netherlands
Schwarz Group	Germany
Tesco	Great Britain

Measurement
Foreign retailer performance
In line with RI research to date (Gielens & Dekimpe, 2001; Ingene, 1982, 1985), we use sales per square meter to measure foreign retailer performance in a given host country. The data were obtained from Planet Retail, a UK company, which provides global retail data and insights.

National culture
Consistent with prior research (Rubera et al., 2012; Tellis, Stremersch, & Yin, 2003), national culture is operationalized using Hofstede's index scores. The index scores for individualism vs. collectivism (IDV), uncertainty avoidance (UAI), and indulgence vs. restraint (IVR) for each host country were obtained from Hofstede (2001) and Hofstede, Hofstede, and Minkov (2010).

Control Variables

We include the total number of stores operated by a retailer in each host country (Stores), total number of checkouts per retailer in each host country (Checkouts), a dummy variable for all store formats operated by a retailer in each host country (Store format), total sales per capita (including total grocery, non-grocery and services) generated from retail and wholesale formats categorized within the modern grocery distribution (MGD sales), and Gdpc (gross domestic product per capita) as control variables. Data for all of the aforementioned variables were obtained from Planet Retail.

In addition, consistent with prior research, we control for the cultural and political distance between the home and host country. We calculate cultural distance using the following formula (Reus & Lamont, 2009):

$$CD_j = \sum_{i=1}^{5} \frac{\left(D_{jk} - D_{ik}\right)^2}{5V_k}$$

CD_j is the cultural distance between the jth host country and home country i, D_{jk} and D_{ik} are the indices for the kth dimension of Hofstede's five cultural dimensions for host country j and home country i, respectively, and V_k is the variance of the kth cultural dimension with respect to the home country.

We use the six World Governance Indicators (WGI) to measure political distance between the home and host country. These indicators are voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption (Kaufmann, Kraay, & Mastruzzi, 2009). The value of each indicator is between -2.5 and 2.5 with higher values indicating better outcomes. We computed the distance between the home and host country using the formula below (Abdi & Aulakh, 2012; Campbell, Eden, & Miller, 2012):

$$PD_{jt} = \sum_{k=1}^{6} \frac{\left(D_{jk} - D_{ik}\right)^2}{6V_k}$$

PD_{jt} is the political distance between the jth host country and the home country at time t, D_{ik} and D_{jk} are the values for the kth WGI indicator for host country j and home country i, respectively, and V_k is the variance of the kth WGI ^{indicator} across all countries in the data.

Empirical Model

To analyze our panel data, we employ a fixed effects model and include retailer fixed effects (retailer dummy variables) to control for retailer-specific effects such as managerial experience and structure and managerial quality, time fixed effects (year dummy variables) to control for business cycle effects, and host country fixed effects (host country dummy variables) to control for host country-specific effects (Wooldridge 2002; Greene 2008). We also estimate robust standard errors due to the presence of heteroskedasticity (Wooldridge 2002; Greene 2008).

The empirical model is thus specified as follows:

P_{ijt} = β_0 + $\beta_1 IDV_j$ + $\beta_2 UAI_j$ + $\beta_3 IVR_j$ + $\beta_4 Stores_{ijt}$ + $\beta_5 Checkouts_{ijt}$ + $\beta_6 MGD\ sales_{jt}$ + $\beta_7 Gdpc_{jt}$ + $\beta_8 CulturalDistance_j$ + $\beta_9 PoliticalDistance_{jt}$ + α_i + γ_t + c_j + u_{ijt}

where P_{ijt} is performance of retailer i in country j at time t, IDV_j is host country j's individualism score, UAI_j is host country j's uncertainty avoidance score, and IVR_j is host country j's indulgence score. $Stores_{ijt}$, $Checkouts_{ijt}$, $MGD\ sales_{jt}$, $Gdpc_{jt}$, $CulturalDistance_j$, and $PoliticalDistance_{jt}$ are the control variables included in our empirical model. α_i is the retailer fixed effect, γ_t is the time fixed effect, c_j is the host country fixed effect, and u_{ijt} is the error term.

RESULTS

The results of the study are reported in Table 2. First, we find a negative relationship between host country individualism and foreign retailer performance (β = -44.752, p < 0.05). That is, foreign retailers operating in host markets that score higher (vs. lower) in individualism (vs. collectivism) are likely to suffer from lower performance than retailers whose host markets are characterized by higher (vs. lower) levels of collectivism (vs. individualism). Since the sign of the coefficient is in the opposite direction to what we hypothesize, H_1 is not supported. We offer possible reasons behind this finding in the discussion section.

Our second focus is to investigate whether foreign retailer performance is influenced by host country uncertainty avoidance. Our findings indicate marginal support (β = -18.199, p < 0.1) for our prediction that the more the host market consumers are predisposed to avoid and minimize uncertainty and risk, the lesser is the performance of foreign retailers. Thus, H_2 is supported. Lastly, we find that host country indulgence has a positive and strong impact on foreign retailer performance (β =

88.438, $p < 0.001$), which strongly supports H_3. This finding verifies our prediction that foreign retailers attract consumers and therefore achieve higher performance in host markets that are represented by a stronger cultural trait in terms of indulgence than foreign markets that put greater restraint on consumption.

Table 2.
Results

VARIABLES	Results
IDV	-44.752*
	(20.987)
UAI	-18.199†
	(9.359)
IVR	88.438***
	(14.812)
Stores	-0.467***
	(0.110)
Checkouts	0.126**
	(0.041)
Store format	3.528
	(35.335)
MGD sales	0.036
	(0.367)
Gdpc	0.157***
	(0.041)
Cultural distance	71.408
	(240.379)
Political distance	0.009
	(0.020)
Constant	80.830
	(1,989.880)
Observations	1507
R^2	0.50

Notes: Dependent variable: retailer performance (sales per square meter). Robust standard errors in parentheses.

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*** *p*< .001, ***p*< .01, * *p*< .05, † p < .10. IDV (individualism vs. collectivism), UAI (uncertainty avoidance), IVR (indulgence vs. restraint), Stores (total number of stores operated by a retailer each host country), checkouts (Total number of checkouts per retailer in each host country), store format (Dummy variable for all store formats operated by a retailer in each host country), MGD sales (Total sales per capita (including total grocery, non-grocery and services) generated from retail and wholesale formats categorized within the modern grocery distribution), Gdpc (gross domestic product per capita), Cultural distance (cultural distance between the home and host country), Political distance (political distance between the home and host country). We drop the retailer, year, and host country dummy variables to increase readability.

DISCUSSION AND CONCLUSION
Implications for Scholars

The findings described above provide evidence that national cultural values can impact sales performance of foreign retailers. In this study, we examined the impact of individualism-collectivism, uncertainty avoidance, and indulgence. Individualism-collectivism showed a significant influence but not in the hypothesized direction. Perhaps, a limitation of this study is that it does not account for country-of-origin, nationalism, animosity, or other factors that might mitigate typical ties between individualism and variety-/novelty-seeking among retail shoppers. Additionally, the individualism-collectivism dimension, based on work-related values, may lack the potential to capture peoples' leanings towards collective group-focused goals that do not necessarily serve an exclusive in-group (e.g., supporting local/homegrown companies) (Gregory & Munch, 1997; Gregory, Munch, & Peterson, 2002). Uncertainty avoidance exhibited a negative relationship with sales performance. Consistent with Bao et al. (2003) and others, this relationship can be attributed to lower willingness to shop non-established (foreign) retailer brands. Indulgence was shown to yield a positive influence on sales performance of foreign retailers. This result reflects the notion that

consumers may esteem foreign retailers that invest in a physical presence and compete to expand the variety and value of market offerings available to the local community.

Implications for Managers

Senior retail executives are charged with discovering and exploiting any available advantages that could enhance returns on their marketing activities in a given national market. As shown in this study, retailer performance can be influenced by the cultural orientation of the host country. Looking at sales per square meter over a fifteen-year period, our findings should encourage retail executives to consider the following point. First, attempts to internationalize the footprints of foreign store brands leads to favorable sales performance when targeting host countries that exhibit greater indulgence (versus restraint). Second, such attempts lead to negative sales performance when targeting host countries that exhibit greater individualism and uncertainty avoidance. Third, these attempts should be aided by efforts to leverage store brand foreignness as an asset (e.g., novelty, positive foreign cultural positioning) that could align with local preferences for variety-seeking shopping experiences. Where viable market opportunities exist, but are not culturally aligned for foreign retail stores, then retail executives may wish to consider local partnerships and/or acquisitions as options to seize those opportunities.

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Year XXVII * Book 1, 2017

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