How To Seize a Window of Opportunity: The Entry Strategy of Retail Firms into Transition Economies

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Abstract	In most western countries, grocery retailers are faced with maturing domestic markets with a year-to-year sales growth close to zero. Moreover, most Western-European markets are characterized by a high concentration rate, with a combined market share of the top five players easily exceeding 70%. One important outcome of this evolution has been a growing interest in cross-border initiatives. However, even though the industry gained importance, retailers are still struggling to develop the competencies to compete and survive in this new, more global, arena. In this paper, we study entry investments into Central and Eastern-European transition economies to unveil when, to what extent, and to which retailer the strategic window in these different markets opens. We develop and empirically test a set of hypotheses on factors that affect (1) the *speed* (timing) and (2) *size* of retailers' decisions to enter Central and Eastern European markets. A conceptual framework is proposed which looks at strategic decisions through the option lens. This perspective offers an economic rationale for the behavioral process of major resource allocations. The resulting hypotheses are tested, using a joint hazard/poisson-regression framework, on a data set covering all entry decisions of the top 75 European grocery retailers towards Central and Eastern Europe. We find that in these transition economies important legitimization effects can be derived from rivals' actions. Especially the moves, made and anticipated, by home rivals are carefully monitored. This reflects the idea that retailers are motivated not only by the chance of creating value in these new markets, but also by the fear of being left out.	
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The Entry Strategy of Retail Firms into Transition Economies

ABSTRACT

In most western countries, grocery retailers are faced with maturing domestic markets with a year-to-year sales growth close to zero. Moreover, most Western-European markets are characterized by a high concentration rate, with a combined market share of the top five players easily exceeding 70%. One important outcome of this evolution has been a growing interest in cross-border initiatives. However, even though the industry gained importance, retailers are still struggling to develop the competencies to compete and survive in this new, more global, arena.

In this paper, we study entry investments into Central and Eastern-European transition economies to unveil when, to what extent, and to which retailer the strategic window in these different markets opens. We develop and empirically test a set of hypotheses on factors that affect (1) the *speed* (timing) and (2) *size* of retailers' decisions to enter Central and Eastern European markets. A conceptual framework is proposed which looks at strategic decisions through the option lens. This perspective offers an economic rationale for the behavioral process of major resource allocations. The resulting hypotheses are tested, using a joint hazard/poisson-regression framework, on a data set covering all entry decisions of the top 75 European grocery retailers towards Central and Eastern Europe. We find that in these transition economies important legitimization effects can be derived from rivals' actions. Especially the moves, made and anticipated, by home rivals are carefully monitored. This reflects the idea that retailers are motivated not only by the chance of creating value in these new markets, but also by the fear of being left out.

Keywords: International expansion, Entry decisions, Retailing, Transition Economies

1. INTRODUCTION

In most western countries, grocery retailers are faced with maturing domestic markets with a year-to-year sales growth close to zero. Moreover, most Western-European markets are characterized by a high concentration rate, with a combined market share of the top five players easily exceeding 70%. This has led the OECD to conclude that the grocery retail industry can be described as a collection of national oligopolies characterized by fierce market-share games within each individual market, where price tends to be the most often used weapon (OECD 2000). As a consequence, players in the retailing industry are at a crossroad, where they have to decide what course of action to pursue to preserve, or even improve, their current market position. One important avenue is the search for new international markets. However, as recently as the early 1990s, foreign sales accounted for less than five percent of the turnover of the world's top five retailers, thereby lagging most of their suppliers (Mulhern 1997). This pattern, however, is rapidly changing, as more and more markets in South-East Asia and Eastern Europe have opened up over the last decade. At present, the world's ten largest retailers are known to grow faster abroad than domestically, and already operate, on average, in over ten foreign markets. The French retail concern Carrefour, for example, recently opened supermarkets in Romania, Slovakia, and numerous overseas markets in Asia as well as North and South America. The German-based retail group Rewe showed a more geographically concentrated internationalization strategy, with new operations in emerging Central and Eastern European markets as Poland and Romania.

Still, in spite of this growing international activity, many retailers appear to be struggling to develop the competencies needed to compete and survive in this more global arena (Kumar 1997). Few succeed in obtaining comparable margins and returns through their foreign

operations as in their home markets, and many don't make break-even volumes. Some of these disappointing results have been attributed to the fact that retailers often appear to be motivated less by the chance of creating value in a new market than by the fear of being left out by their competitors (The Economist 2000).

Even though Gielens and Dekimpe (2001) found that retailers' strategic entry decisions, such as their timing and size of entry, have a long-lasting impact on the subsequent sales and efficiency level of their foreign operation, surprisingly little literature has addressed the antecedents of these strategic decisions. In this paper, we attempt to fill this gap, and present a conceptual framework, based on financial option theory, to derive various hypotheses on factors that may affect (1) the speed (timing) and (2) size (number of outlets opened at the time of entry) of retailers' internationalization decisions. Using a hazard/poisson-regression framework, we subsequently test these hypotheses on a data set covering all international expansion decisions of the top 75 European grocery retailers towards Central and Eastern Europe.

2. CONTRIBUTION

So far, the academic literature on foreign entry and expansion decisions has mostly focused on their performance consequences. Luo (1998), for example, studied the short-run performance consequences of the timing, entry mode, and degree of diversification of foreign entries in the light industry, while Mascarenhas (1997) investigated the impact of entry size and order of entry in the oilrig market. In the retailing industry, Gielens and Dekimpe (2001) studied the long-term performance consequences of standardization, mode, timing, and size of entry.

A second stream of literature focuses on which firm and market factors drive initial entry decisions. As such, questions regarding the extent to which rivals' actions are followed and imitated, the match between home- and host-market profile, and which firm's characteristics

tend to be associated with foreign entry, become relevant. Answering these questions may not only help managers to select entry strategies given, respectively, the host-market situation and their own firm profile, but will also help predict the type of competitors they are likely to face at the time of entry (Fuentelsaz, Gomez, and Polo 2002; Robinson, Fornell, and Sullivan 1992). Among the strategic entry decisions analyzed so far, most attention has been given to the drivers of the mode of entry (see, e.g., Erramilli, Agarwal, and Dev 2002; Erramilli and Rao 1993) and/or product-standardization (see e.g. Cavusgil, Zou, and Naidu 1993; Chatterjee and Singh 1999) decision. Despite some recent interest in the timing of international entry (Fuentelsaz et al. 2002, and Mitra and Golder 2002), the scale of initial investments (i.e. size of entry) and the relation between the size and speed of entry have been largely ignored.

In our work, we extend this second research stream in four ways. First, building on work in finance (see, e.g., Dixit and Pindyck 1994; McDonald and Siegel 1986) and strategy (see, e.g., Miller and Folta 2002), we consider international entry operations as lumpy investments of firm resources in an environment characterized by uncertainty about future performance. Entry strategies are seen as a process of organizational resource-investment choices or options (see e.g. Bowman and Hurry 1993). In striking these options, the retailer must make two important decisions, i.e. *when* investments in foreign operations are made, and *how much* capital will be invested (Bar-Ilan and Strange 1999). If the strategic window opens for different retailers at different moments in time (Abell 1978), and/or if managers' perceptual biases cause them to differ in their interpretation of various market signals (Bowman and Hurry 1993), the likelihood, timing and extent of striking the option will vary considerably. Looking at strategic decisions through the *option lens* offers an economic logic for the behavioral process of major resource allocations (Dixit 1992). As such, this option perspective has been argued to capture the heart of

managerial intuition on organizational investments (Bowman and Hurry 1993), and may thus give insight into what factors are taken into account when making international entry decisions.

Second, we *simultaneously* consider the size and timing components of international entry. Ayal and Zif (1979) argue that in deciding to go abroad, retailers can choose between two different expansion alternatives. They can either decide to enter one country at a time, i.e. use a sequential strategy, or they can penetrate many countries simultaneously (or within a small time span). Clearly, the two strategic options proposed by Ayal and Zif have vastly different timing and size implications. So far, despite their importance in competitive strategy, little or no attention is paid to the interdependence of these two entry decisions (Douglas and Craig 1992).

Third, a key focus in our study is the impact of *rival* foreign *activities*. So far, the impact of (cultural) distance (see, e.g., Barkema, Bell, and Pennings 1996; Mitra and Golder 2002), the firm's dynamic resources and capabilities including its international experience (see, e.g., Chang 1995; Fuentelsaz et al. 2002; Mitra and Golder 2002), and the market conditions in the host market (see, e.g., Davidson 1980; Fuentelsaz et al. 2002) on the whether and/or when to enter decision have been studied. Limited attention has, however, been given to the learning/imitation effect derived from competitive rivals' actions, and/or the competitive barriers raised by these actions. In line with recent work by Debruyne and Reibstein (2004) we will argue that firms do not treat their competitive landscape as homogenous, but rather react more extremely to some moves than to others. Because of their common background and comparable endowments, firms may follow more easily their domestic rivals' internationalization actions. Moreover, not only are their current internationalization decisions taken into account, we will also argue that retail firms take their (home) rivals' anticipated internationalizations into account when planning their own international expansion strategy.

Fourth, we consider all entries made by the top-75 Western-European grocery retailers in 11 Central- and Eastern-European *transition economies*. Entries by retailers in these transition economies provide an ideal setting for assessing the potential imitation and competition effects from rival players. Transition economies constitute a major growth opportunity in today's evolving world order (Arnold and Quelch 1998), but are at the same time characterized by a substantial amount of environmental uncertainty, making organizational learning both more difficult and essential (Luo and Peng 1999). Moreover, all Central and Eastern European markets opened up at the same time, and thus became real investment options for all retailers at the same moment.

3. CONCEPTUAL FRAMEWORK

A conceptual framework is presented which looks at strategic decisions through the option lens. This perspective offers the economic logic and managerial intuition regarding organizational investments, and allows identifying key drivers of the entry decisions.

3.1 Foreign entry investments as real options

Can value be attached to waiting and/or to entry on a more limited scale, or is it better to act as soon as possible at the largest scale that is feasible? In every entry-timing and -size decision, retailers have to consider two important dimensions: (1) the potential irreversibility of investments (and its associated loss of flexibility), and (2) market uncertainty (cf. Ghemawat 1991). Because of these two key characteristics, international expansion decisions can be seen as real options, which can either be struck (purchased) or deferred (Miller and Folta 2002).

First, substantial, often not fully reversible, investments are required. Export opportunities tend to be missing in the retail industry (Erramilli and Rao 1993). To reach their potential customers, retailers have to set up stores, which require logistic networks, relationships

with (new) suppliers need to be developed, and assortments of thousands of products have to be managed. The German Rewe group, for example, dedicated 100 million USD to set up 5 stores in Russia (M+M Planet Retail 2003). This constitutes a considerable investment that is largely sunk once made.

Second, *uncertainty* exists concerning future returns. This applies to every foreign investment (Rivoli and Salorio 1996), but is especially relevant in our setting. Indeed, local consumer tastes may differ from those in the home country, while also local suppliers' customs are unknown (The Economist 1999). The resulting problems are even more severe when entering emerging markets. Not only is the retail chain still unknown to the local population, the concept of modern retail distribution is also unfamiliar in most emerging economies. Moreover, western retailers typically do not have any experience operating in such markets, and it is still unclear to what extent macro-economic and institutional factors will change (Fahy et al. 2000).

Because of the perceived opportunity costs, or because they do not want to commit themselves (yet) in the midst of high uncertainty, retailers may be reluctant to enter a specific market, as they may want to 'keep their options open' against the unforeseeable future (Bowman and Hurry 1993, p. 761). Indeed, early and extensive commitment tends to reduce flexibility and increase risk exposure (Miller and Folta 2002). Depending on the perceived value of the wait option, managers may consider to either postpone a given entry (i.e. defer resource allocations), or strike the option at a certain scale. Drivers increasing the value of the wait option will therefore decrease the speed and size of entry. Likewise, if factors exert a negative effect on the value of the wait option, entry tends to become more imminent (McDonald and Siegel 1986), making firms less reluctant to commit scarce organizational resources to the selected entry option.

3.2 Underlying drivers of the value of the wait option

Whether or not to proceed with an initial foreign investment, and how much to invest, depends on the value of the wait option, which has been argued to be driven by four factors: (1) uncertainty about the market evolution, (2) current and future opportunities, (3) time dependence, and (4) managerial discretion (Kogut and Kulatilaka 1994).

Having the flexibility to wait is only valuable when uncertainty exists. A firm may prefer to postpone an investment until the project's uncertainty is resolved, especially when the firm cannot recuperate a substantial fraction of these investments in case the project fails (Dixit and Pindyck 1994). As indicated before, both conditions apply in our setting. The higher the resulting uncertainty (and the higher the sunk costs), the more valuable the wait option becomes.

The value of waiting is also related to the future *opportunities in the host market*. This reflects the idea that short-run returns need not be the sole consideration when evaluating a potential entry. Entering a market may serve as a gateway to further growth or expansion opportunities that may only materialize later (Myers and Majluf 1984). Hence, managers may rationally choose to enter new industries even if they anticipate that markets may not immediately reward their decision (Folta and O'Brien 2004). As with most emerging markets, long-run prospects in Central and Eastern Europe may be considered promising by some managers, as they expect increased levels of consumer demand and sophistication, while others may be more skeptical (Fahy et al. 2000).

Time dependence refers to first-mover advantages to be gained or lost. If the investment strategy can be imitated quickly, there is less advantage in investing early. On the other hand, if there is a high chance that a competitor will preempt a market, the value of the wait option may be eradicated overnight. In a retail setting, there may only be room for a few profitable players.

The first entrants can select the most attractive locations for their store network, and limit the space available for subsequent entrants (Lieberman and Montgomery 1988). Moreover, in several emerging markets, the intensity of competition is picking up faster than consumer demand (Fahy et al. 2000), underlining the importance of these time-dependent advantages.

Managerial discretion reflects whether a retailer is in a good position to implement the entry. A firm's dynamic capabilities determine to what extent a retailer is well placed to react to the new opportunity and face the uncertainty in the market. For example, the resource-based view of the firm argues that firms should invest in domains that are related to existing resources and capabilities, as those assets can subsequently be deployed in a more advantageous manner to maximize the present value of future cash flows (see, e.g., King and Tucci 2002). This suggests that the value of striking a particular entry option will not only differ across firms, but can also be expected to change over time.

3.3 Hypotheses

With the opening of the former communist bloc in Eastern Europe, an important source of untapped market potential became a real investment option to retailers worldwide. Nevertheless, instead of witnessing an undifferentiated rush into all of these markets, entry patterns were found to differ substantially across both retailers and host markets. For example, despite the great unresolved uncertainties in the Russian market, retail firms as diverse as the Finnish Tradeka chain and the French Auchan group took up the challenge to exploit the country's demand opportunities, while major players such as France's Carrefour and UK-based Tesco are still hesitant to invest in the Russian market. Other markets, such as the Czech Republic and Hungary, were entered with less hesitation by more players, but even there, quite some variability in both entry timing and size was observed. Whereas the French retailer Cora and the

Austrian retail group Spar Austria both entered the Hungarian market with only one store in 1991, their Austrian and German competitors Meinl and Tengelmann opened, respectively, 15 and 12 stores in their first year of operations (1991). Similarly, in 1996, the German retailer Rewe entered the Czech market at full force with 33 stores. Lidl, however, entered that same year at a very limited scale with only one store.

We use the aforementioned four factors, (1) uncertainty, (2) present and future opportunities, (3) time dependence, and (4) managerial discretion to develop hypotheses on how the value of the option and consequently the speed and size of entry vary with competitive actions, retailer resources and host-market attractiveness, as summarized in Figure 1.

---Insert Figure 1 about here---

3.3.1 Competitive actions

The presence of rivals in a market may affect the value of the wait option, as it impacts several of the aforementioned factors.

Lack of accurate information on retail opportunities in a new market increases uncertainty and may delay entry (Martin, Swaminathan, and Mitchell 1998). Prior decisions by other retailers may provide crucial information on whether a foreign venture is profitable (see, e.g., Henisz and Delios 2001). Following the norm in the industry not only reduces uncertainty but also enhances legitimacy, as a given practice is seen as appropriate. As a consequence, pioneering entrants are often imitated by other players in the industry (DiMaggio and Powell 1983). Carrefour's entry in Taiwan, for example, is widely thought to have attracted new entrants into the market. Moreover, in imitating these actions, one prevents the early entrants from monopolizing strategic capabilities that can also be used in other, both domestic and foreign, markets (Flowers 1976; Knickerbocker 1973). The value of the option to wait is thus

expected to decrease with every rival player entering the host market, which will positively impact the speed and size of entry.

Other researchers, in contrast, have emphasized that rival players tend to decrease host-market opportunities. With every rival entering, market competition becomes tougher, raising a barrier to further entry. Cotterill and Haller (1992) point out that especially in the context of grocery retailing, aggressive responses to subsequent entries are common. This causes an increase in the cost of later entry (Hannan and Caroll 1992). As a consequence, the presence of rivals may decrease the present and future opportunities of the entry, reducing the value of striking the option.

The ecology literature (Hannan and Freeman 1977) tries to reconcile these conflicting views. They acknowledge that, initially, the presence of rivals facilitates a process of social recognition or legitimization, and therefore attracts new entrants into the host market. Still, as competitive investments in a host country increase, the market's carrying capacity is gradually fulfilled, the best geographical locations preempted, and several future market opportunities depleted, creating a deterring effect that eventually dominates the legitimization effect. Following this line of reasoning, we expect two opposing forces, i.e. rival imitation and deterrence, to be at work. It remains a priori difficult to predict which force will prevail at what range of competitive activity. As such, we will allow for a quadratic relationship between the entry decisions and the expected competitive activity, allowing for (inverted) U-shaped, positive and negative monotonic relationships. Moreover, we argue that the relative strength of both forces depends on the geographic (i.e. home-based versus foreign) and temporal (i.e. actual versus anticipated) proximity of the competitive actions.

The impact of home versus foreign rivals. So far, the presence of rivals in the host market was evaluated irrespective of their origin. Firms may, however, not attach equal weight to the actions of all competitors (Garcia-Pont and Nohria 2002). As postulated in competitive cognition theory, companies do not consider their competitive landscape to be homogenous (Debruyne and Reibstein 2004). The relevant comparison group may not consist of all players in the industry, but rather of those retailers with which they are in close social contact (Guillèn 2002). We test in this respect whether firms monitor more closely the foreign-entry decisions of their *home* competitors than of their *foreign* rivals.

Indeed, information on the expansion process and relative success of domestic rivals may be easier to obtain, and perceived as more relevant, than information from other entrants. Domestic rivals have a common background, and have built their firm-specific retail capabilities in a common domestic market (Martin et al. 1998). Because of the resulting similarity in resource endowments, observing how the home-market rivals operate in the new host market may be more effective in reducing uncertainty and increasing managerial discretion than entries made by foreign rivals (Chen 1996). Moreover, retailers may be more inclined to closely monitor their home-market rivals, as they may fear the potential cross-subsidization towards the home market that might result from a successful international expansion (Flowers 1976). In sum, we expect the imitation process to be more prominent for domestic rivals than for foreign firms.

The impact of actual versus anticipated rivals. Next, we examine to what extent *actual* entries into the host market have a different impact from *anticipated* (future) competitive moves (Bain 1956). A retail firm is obviously confronted with players that already operate in the host market, but may also anticipate actions by players not yet present. Indeed, it may be important to act upon time-dependent advantages and lock in markets to make it ever more difficult for

competitors to subsequently gain a toehold into those markets (Wind 1997). Hence, pro-active behavior may be crucial to avoid potential late-mover disadvantages. Nevertheless, retail expertise and social cognition will be more difficult to derive from anticipated future rival actions, which de facto carry an additional level of uncertainty. We therefore expect the imitation process to be less pronounced.

3.3.2 Retailer resources

Competitive pressures may not be the only factors that affect the value of the wait option. We also consider the impact of the following firm resources: (1) international experience, (2) assortment policy, as reflected in the role played by the retailer's private label, and (3) firm size.

International experience. Davidson and Harrigan (1977) argue that firms with extensive prior involvement in foreign markets are likely to respond differently from those without. International experience reduces uncertainty, and increases the available opportunities and managerial discretion. As the retailer gains experience in assessing foreign countries' culture, the nature of the prevailing business practices and/or the consumers' preferences, the perceived uncertainty of an additional, or more substantial, international expansion is reduced (Barkema et al. 1996), thereby reducing the value of the wait option. Moreover, during prior internationalizations, routines for analyzing the potential of foreign opportunities are likely to have developed (King and Tucci 2002), reducing the cost and increasing the expected return of the opportunity-identification process. Finally, as experience has been shown to be a prime source of learning in organizations (Luo and Peng 1999), it increases the ability to make good judgments and hence, managerial discretion.

We distinguish between two different facets of international experience, i.e. *worldwide* and *regional* experience. The former is based upon a retailer's global experience without

reference to a specific market (Li 1994). It reflects its ability and confidence in assessing consumers' needs and estimating costs and returns, which will ultimately lead to a better assessment of the economic value of the new market (Davidson 1980). Regional experience, in contrast, is acquired through operations in a specific target area (Li 1994). It refers to both logistical advantages and the more extensive intelligence-gathering capabilities in the region (Tan and Vertinsky 1996). Both forms of experience are thought to decrease the value of the wait option, and thus to increase the speed and size of entry.

Assortment policy: Private-label share. A substantial share of private labels within the retailer's assortment may impact uncertainty, present and future opportunities, and managerial discretion. Most retailers entering new markets are unknown to their potential customers. Retailers who rely heavily on private labels not only have to convince customers in the new markets to switch stores, but to also switch brands. Moreover, in terms of the branded products they want to carry, they may not have an as comfortable position in manufacturer-retailer negotiations as other retailers (Kumar 1997). Finally, private-label programs require the retailer to carry a lot of functions and costs (e.g. inventory, promotions etc.) the manufacturer normally takes care of. Performing these functions in a new host market may not be evident. As it is hard for retailers to predict how consumers and suppliers will react to their private label, a strong commitment to private labels can increase uncertainty, decrease present and future opportunities, and reduce managerial discretion.

Firm size. Firm size has been described as a proxy for market power, while it has also been identified as a potential source of inertia. As such, firm size may impact the value of the wait option by changing the ability to act upon time dependent advantages and by influencing managerial discretion. Firm size has been associated with market power in both domestic and

international contexts (Gaba, Pan, and Ungson 2002). It is argued that larger firms compete in a broader spectrum of products and markets using scale and scope economies, allowing them to identify more, as well as react more quickly, to time-dependent opportunities. For example, larger retailers are better able to make pre-emptive moves that limit or prevent later entrants from gaining access to suppliers, markets, customers and other scarce resources (Kobrin 1991). They are also likely to have stronger bargaining power to gain concessions from the host-country government (Brewer 1993), all of which allow for a wider freedom of choice and increased managerial discretion. Moreover, larger retailers are also likely to have more financial resources, which provide a buffer against downside risks (Haveman 1993).

In contrast, bureaucratic tendencies arising from greater structural complexity, differentiation, formalization etc., are supposed to lead to increased rigidity and inertial pressures (Crozier 1964). This will negatively affect a retailer's ability to react quickly to changing environments or to grasp new opportunities. As such, larger retailers may be less able to exploit time-dependent advantages (Lieberman and Montgomery 1988).

Because of these opposing forces, the impact of firm size on the value of the wait option is hard to a priori predict.

3.3.3 Host-market attractiveness

A firm is more likely to enter a new market if it can identify a set of buyers from which it stands a reasonable chance of successfully obtaining sales (Mitra and Golder 2002). In this study, we look at the impact of expected retail sales, and the fit between host-country and retail operations.

Expected retail sales. Market potential is directly related to a market's uncertainty and opportunity, and is often regarded as the economic reason for market entry (Caves 1982).

Indications of rising expected retail sales decrease market uncertainty and increase one's appreciation of future opportunities.

Host-market fit: distance. Similarity between the host market and the retail firm's current operations increases the attractiveness of a new market, and decreases the value of the wait option. Indeed, this similarity will determine how difficult it will be to implement a knowledge transfer, which will in turn affect managers' perceived level of uncertainty, the accuracy with which they can assess future opportunities, and how much flexibility (discretion) they will have to pursue alternative courses of action. We consider the impact of cultural, geographic, and economic distance. Globalizing firms have to adjust to different foreign cultures, and are more likely to fail when this acculturation is more demanding (Barkema et al. 1996; Davidson 1983). Adjustments to a foreign culture increase costs and risks, while reducing managerial discretion (Mitra and Golder 2002). As for geographic distance, retailers which already have operations close to the new foreign market may have some logistical advantages, and are better able to control activities (Ghemawat 2001). On the demand side, they may also have a better and more detailed understanding of the prospective customers in the host market (Cotterill and Haller 1992). Finally, economic distance is considered, as it is hard to replicate an existing business model in a country where customer income, not to mention the cost and quality of resources, are very different (Ghemawhat 2001). Comparable economic characteristics will also facilitate knowledge transfer (Mitra and Golder 2002), thereby reducing uncertainty and increasing managerial discretion.

4. METHODOLOGY

To test the hypotheses, we propose a modeling approach that simultaneously considers the timing and size of the entry decision. A maximum-likelihood framework is used to estimate both

decision components, with a hazard specification for the timing dimension, and a poisson-regression specification for the size issue. An explicit correction is made for the stratified nature of the observations. Indeed, not all observations can be treated as independent, in that multiple observations cover an international entry into the same target country. We first discuss how we incorporate, respectively, the speed and size component. Next, we indicate how we capture their inter-relationship.

4.1 Speed of entry decision

A proportional hazard model is used (Cox, 1972), where we define the entry rate at year *t* for retailer *i* (*i* = 1..I) in country *j* (*j* = 1..J) as $\lambda_{ij}(t)$, with

$$\lambda_{ij}(t) = \lambda_{oj}(t)\exp\left[\beta X_{ij}(t)\right], \tag{1}$$

where $X_{ij}(t)$ represents a vector of time-varying covariates. $\lambda_{0j}(t)$ is the baseline hazard rate in *j*, which represents the entry rate assuming all covariates equal to zero, and β represents the vector of parameters. Estimation is based on the partial likelihood. For country *j*, this function has the following expression,

$$L_j = \prod_{i=1}^{I}\left[\frac{\exp\left[\beta X_{ij}(t_{ij})\right]}{\sum_{l=1}^{I} Y_{li}\exp\left[\beta X_{lj}(t_{lj})\right]}\right]^{c_{ij}}. \tag{2}$$

with c_{ij} equal to one (zero) for completed (censored) observations. Its use allows us to effectively exclude from the numerator those retailers, which did not experience an entry event into country *j* by the end of the observation period. For those firms that did experience an event at a specific time (t_{ij}), one considers the likelihood that the event happened to firm *i* rather than to one of the other firms still 'at risk' (i.e. those that can still enter), at that time. To determine the relevant risk set, a set of indicator variables Y_{li} is created, with $Y_{li} = 1$ if $t_{lj} \geq t_{ij}$, and $Y_{li} = 0$ if $t_{lj} < t_{ij}$. In

doing so, one effectively concentrates on the order in which the various events took place (see Allison 1984 for an in-depth discussion).[1] A key advantage of the approach is that it does not require a distributional specification for the baseline hazard, as it no longer appears in Equation (2).

When considering the entry process across *J* markets, one combines the various partial likelihood expressions, i.e.

$$L = \prod_{j=1}^{J} L_j = \prod_{j=1}^{J} \prod_{i=1}^{I} \left[\frac{\exp\left[\beta X_{ij}(t_{ij})\right]}{\sum_{l=1}^{I} Y_{li} \exp\left[\beta X_{lj}(t_{lj})\right]} \right]^{c_{ij}}. \tag{3}$$

A common set ofβ's is assumed across the various countries. Still, the risk set (and hence the relevant order of occurrence of the various events) is defined on a country-by-country basis. This procedure is known as a stratified proportional Cox approach (see Mitra and Golder 2002 for a marketing application), which no longer assumes that all observations (across the various countries) are independent, but only that the observations are conditionally independent *within* a given country or stratum.

4.2 Size of entry decision

When entry occurred for retailer *i* in country *j* in the observation span, we record the number of stores z_{ij} opened in the initial year of entry. To account for the discrete nature of these data, we adopt a Poisson regression model (see, e.g., Greene 2000). Specifically, it is assumed that each z_{ij} is drawn from a Poisson distribution with parameter γ_{ij}, implying that:

$$P(Z_{ij} = z_{ij}) = \frac{\left[e^{-\gamma_{ij}} \gamma_{ij}^{z_{ij}} \right]}{z_{ij}!}, \tag{4}$$

[1] Note that even though censored observations are excluded from the numerator in Eq. 2, they do appear in the risk-

Covariates can be included by specifying γ_{ij} as:

$$\gamma_{ij} = \exp\left[cY_{ij} \right], \tag{5}$$

where Y_{ij} is a vector of covariates, and where c is the vector of parameters to be estimated. The size decision only becomes relevant if entry actually occurred, implying that the distribution of responses is truncated above zero (Bucklin, Gupta, and Siddarth 1998; Greene 2000):

$$P(Z_{ij} = z_{ij} \mid Z_{ij} > 0) = \frac{P(Z_{ij} = z_{ij})}{1 - P(Z_{ij} = 0)} = \frac{\left[e^{-\gamma_{ij}} \gamma_i^{z_{ij}} \right]}{z_{ij}!(1 - e^{-\gamma_{ij}})}. \tag{6}$$

To account for correlations within host countries, a generalized linear estimation approach is used (Liang and Zeger 1986) which has been shown to be robust to covariance-structure misspecifications (Goldstein, Brown, and Rasbash 2002).

4.3 Relation between timing and size of entry decisions

We adopt a recursive approach, and assume the size decision to be dependent upon the timing decision. We therefore add the year of entry as additional variable in the poisson model.[2] This approach is based on the theoretical argument that entry decisions can be considered lumpy investments, which are discrete and occasional events. The level of such an investment decision tends to be made after the decision to invest has been made, as argued in Bar-Ilan and Strange (1999). This is also in line with previous empirical work. In the international-business literature, Bowman, Farley, and Schmittlein (2000) describe a similar sequential decision process for the selection and level of use of international service providers. In the international diffusion literature, Dekimpe, Sarvary, and Parker (2000) make the full-adoption stage dependent on the

set composition of the denominator.

[2] Note that we model the dependence between the timing and size decision by including an observable covariate (time of entry) in the size equation, which is comparable to the linkage in the coupled-hazard approach of Dekimpe et al. (2000). This ensures that the overall likelihood function becomes separable, allowing a separate estimation of

timing of that country's initial adoption decision. Finally, in the individual-choice literature, Bucklin et al. (1998) propose to model the purchase-quantity decision conditional on the timing decision.

In terms of the expected sign of this relationship, two opposing arguments can be posited. First, early entrants may prefer large-scale entry, as it may expand the size of the market, send signals of commitment, and deter duplication (Ghemawat 1991). These arguments suggest that early entrants may benefit from large-scale entry, causing a negative relationship between size and timing of entry. In contrast, a positive relationship could be posited as well. If one enters early, the risk of not recovering overhead costs may be substantial and higher commitment implies higher risk exposure. These risks can be especially substantial if the host market is in an early stage of development, suggesting limited initial scale when entering early in transition economies.

5. DATA

We trace the entry behavior of 75 European grocery retailers into 11 Central- and Eastern-European markets (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovakia and Slovenia) from 1989 until 2001, resulting in 825 potential retailer-market combinations. Grocery retailers were included in the sample if the firm listed among the 75 largest grocery retailers in Europe based on total consolidated food sales in 1991 (M+M Eurodata/Planetretail). The year 1989 was chosen as starting year, as the fall of the Berlin Wall in that year symbolizes the opening of the former East Bloc.[3]

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both processes. Corrections for (possibly correlated) unobserved heterogeneity are left as an important area for future research.

[3] Following Gielens and Dekimpe (2001), we consider all entries through greenfield expansion and acquisition, and also include joint ventures. Selection bias was avoided in two ways. First, we used a historic perspective (Golder and Tellis 1993) to gather information on all entries that occurred within our observation period. As such,

Western European retailers were selected as they are the frontrunners in the globalization of grocery retailing (OECD 2000). Only since the mid-1990s, a few American chains (such as Wal-Mart and Kmart) joined the internationalization move. The selection of Central and Eastern Europe as a target market offers various advantages. First, the fall of the Berlin Wall is a natural starting point for the timing decision. As no modern retailers were present in the target market, one is able to test the impact of the different drivers in a 'tabula rasa' situation. Second, the various markets opened to all retailers at the same time. Little confounding effects are therefore expected to be present. Finally, transition economies provide an ideal setting for assessing the impact of learning derived from competitors, as these countries are characterized by a substantial amount of environmental uncertainty (Luo and Peng 1999).

Data on market entries, competitive actions and firm characteristics are obtained from M+M Eurodata/Planet Retail. The data for the distance measures come from different sources, including the Worldbank (2003) and Hofstede (2002).

5.1 Dependent variable: timing of entry

For every possible retailer-country combination, we record whether the retailer entered the market. If entry took place (i.e. for the completed observations), timing is measured as the number of years elapsed between the opening of the market (1990)[4] and the entry date. Observations can be censored for two reasons. First, it could be that no entry occurred by the end of the observation period (December 2001). Timing is then captured as the number of years (13) elapsed between the opening of the market and 2002. Second, in a few instances, a retail firm

information on entries which were abandoned by the end of the observation period was also taken into account. The information was obtained by sequentially checking all M+M Eurodata/Planetretail publications from 1991 (first edition) onwards, as well as various other trade publications that appeared around the time of entry. Second, we include in our sample timing information on both entrants and non-entrants.

[4] As the Berlin Wall fell in November 1989, 1990 was taken as the first year in which entry could actually take place.

was taken over. In these cases, the date of acquisition was used as censoring date.[5] Of the 75 retail firms included in the sample, 40 firms entered one or more Eastern-European markets. The total number of recorded entries amounts to 119, which represents a hit rate of 14.4%. The median time until entry for the non-censored observations is 6.

5.2 Dependent variable: Size of entry

The *size of entry* is defined as the number of outlets opened in the first year. Various measures could be used to quantify the foreign presence of chain activities: (1) the number of outlets/branches (Fuentelsaz et al. 2002), (2) the combined value of the assets of all outlets (Hultman and McGee 1989), and/or (3) the total store surface at entry (Gielens and Dekimpe 2001). We adopt the first measure, as in industries like grocery retailing, the firm requires multiple outlets to build a close-contact relationship with its prospective consumers (Fuentelsaz et al. 2002). Initial entry size varied considerably (range [1, 63]) with a mean value of 8.4.

5.3 Explanatory variables

We subsequently discuss the operationalization of the competitive drivers, firm characteristics, and host-market attractiveness variables. All explanatory variables are measured at an annual level of temporal aggregation, and are time-varying. Following Steenkamp, ter Hofstede, and Wedel (1999), we mean-center all explanatory variables within countries. This ensures that differences in the mean levels between countries do not affect our hypothesis testing.

5.3.1 Competitive presence

Presence of home-country players in the host market at time t is defined as the ratio between the number of past entries by home-market players by the end of the year prior to entry,

[5] Retailers that were taken over are censored before the end of the observation window. They are deleted from the set of "retailers still at risk", and thus the nominator of Equation 2, as soon as the timing of a particular entry exceeds the time of acquisition.

and the number of major home players.[6] We express this presence in relative rather than absolute terms to correct for differences in the number of rivals present in the home market (see Dekimpe et al. 2000 for a similar practice). The German retailer Rewe, for example, entered the Czech market in 1996. At the time of entry, Rewe encountered in the new host market its German rivals Norma, Tengelmann, and Edeka, which, respectively, entered in 1991, 1992 and 1993. In its German home market, Rewe encountered 14 major rivals. Consequently, the proportion of home-based rivals present in the Czech market until 1991 was 0%, 7% in 1992 (1/14), 14% in 1993 (2/14) and 21% (3/14) from 1994 to 1996. The proportion of *foreign players* in the *host* market at time *t* is defined in a similar way.[7] In terms of Rewe's move into the Czech Republic, six foreign players were present before 1996. In the 13 countries represented in our sample (besides Germany) 80 retailers had a home market share exceeding 1%. As such, the proportion of foreign players encountered by Rewe in the Czech Republic is 7.5% (6/80).

The anticipated actions by home-country players are operationalized as the ratio of the number of anticipated entries made by home competitors at different points in time to the number of major home-market rivals. The number of *observed* actions at time *t+1* is used as proxy for the *anticipated* entry level at time *t*, thereby following Doyle and Saunders (1985), McDonald and Van de Gucht (1998), and van Heerde, Leeflang, and Wittink (2001), among others. In 1997, i.e. the year following Rewe's entry in the Czech Republic, two more German firms, Lidl and Metro, entered the Czech market. The proportion of anticipated actions by Rewe's home players thus amounted to 14%. A comparable operationalization is used to quantify the *anticipated* actions by *foreign* players.

[6] Major players are defined as firms that have a market share exceeding 1%.
[7] We focus exclusively on the number of non-local players, as no real local retail infrastructure existed in most Eastern-European markets.

5.3.2 Firm resources

Worldwide experience in period *t* is expressed as the cumulative number of international markets the firms entered by the end of the previous year (cf. Tan and Vertinsky 1996). *Regional experience* is defined as the number of outlets opened throughout Eastern Europe by a given retail firm, again by the end of the previous year (cf. Li 1994). The number of outlets is used, as this better captures the advantages from having a logistic network in the region. The annual *private label share* in the retailer's home market measures the extent to which the retailer depends on private labels in its home market (Gielens and Dekimpe 2001). To capture *size* effects, consolidated deflated sales were recorded (cf. Gatignon, Weitz, and Bansal 1990).

5.3.3 Host market attractiveness

Retail sales expectations at time t are calculated as the combined host-market sales by all international retailers in *t+1*. *Cultural* distance is measured as a composite index using Hofstede's data (2002) on the four dimensions of culture (individualism, uncertainty avoidance, power distance, and masculinity) (Kogut and Singh 1988). We measure this distance as the difference between the new host market and the culturally most similar market the retailer is already operating from. This most similar market can obviously change over time as the retailer expands his international coverage.[8] For retailers with no international activities, the most similar market is the home market. *Geographic distance* is expressed as the shortest distance in miles between the host-market capital and the capital of another country the retailer is already operating in. For *economic distance,* we first select two measures to reflect the economic attractiveness of the retail climate in a country. Specifically, we consider GNP per capita as a measure for economic prosperity, and number of inhabitants as a measure of potential scale. We

then create distance measures by taking the absolute value of the difference between each economic attractiveness variable for the domestic and host country (cf. Mitra and Golder 2002).[9]

6. RESULTS

Table 1 reports the unstandardized parameter estimates and their associated *t*-values. Given the directional nature of most of our hypotheses, one-sided tests are used, except for the impact of firm size and the timing decision.

---Insert Table 1 about here---

Competitive actions. As indicated before, two opposing forces, imitation and deterrence, may be at work. A priori, it is difficult to predict which of these two forces will prevail at what range of competitive activity. As such, a quadratic relationship was specified to allow for the flexibility to incorporate (inverted) U, as well as monotonically increasing/decreasing relationships between competitive activity and the speed and size of entry. This flexibility was found to be appropriate, as four out of eight quadratic terms were negative and significant.

Three of these inverted U-patterns were observed in relation to the *home-based* rivals. A curvilinear relationship was found between the actual proportion of home players present in the host market and the speed of entry, as illustrated by the positive significant linear [$\beta_1 = .939$ ($p < .01$)] and the negative significant quadratic component [$\beta_2 = -.534$ ($p < .01$)]. Anticipations concerning home players' entries into the host market were also curvilinearly related to the speed of entry decision [$\beta_5 = .446$ ($p < .01$), $\beta_6 = -.139$ ($p < .01$)]. With respect to the relationship between the size of entry decision and the proportion of future entrants, a clear inverted-U

[8] For example, when Rewe entered Slovakia in 2002, the culturally nearest market was the Czech Republic, and no longer its home market, Germany.
[9] As the economic conditions between the emerging and Western European markets differ dramatically, the home market is always used as reference market.

relationship was found as well [$\gamma_5 = .263$ ($p < .01$), $\gamma_6 = -.153$ ($p < .01$)]. However, with respect to the actual proportion of home players present in the host market a positive significant linear component was found; the quadratic component, while negative, did not reach statistical significance [$\gamma_1 = .418$ ($p < .01$), $\gamma_2 = -.612$ ($p > .10$)]. So, the more home players present in the market, the more initial investments tend to be made at the time of entry.

To get a better understanding of these effects, we present them graphically. Figure 2 illustrates the impact of the actual and expected number of *home*-based players present in the host market on the speed and size of entry in the Czech Republic in 1997.[10] The horizontal axis represents the proportion of home-based players present or expected, while the rate of entry (speed decision) or store openings (size of entry) is represented on the vertical axis.[11]

---Insert Figure 2 about here---

In 1997, German retailers envisioning to enter the Czech Republic observed that 56% of their key domestic rivals were already active in that market. At that point, the mean level of domestic rivals present in the Czech Republic amounted to 23%. As a consequence, the entry rate for German retailers was about 28% (= $\exp(.94*(.56-.23)-.53(.56-.23)^2)$) higher than for retailers who encountered an average proportion of their domestic rivals in that market. At that point, French retailers encountered 10% of their domestic rivals in the Czech market. Their corresponding entry rate was 9% lower than for retailers encountering an average fraction of domestic rivals.

Even though the quadratic term is negative and significant for both actual and future actions by home-based rivals (i.e. -.534 for the actual number of home players and -.139 for the

[10] Slight differences may occur between graphs across other countries and over time. All covariates were mean-centered, and these means can change over time and countries.

anticipated number), we observe (Figure 2A) a monotonically increasing pattern over the relevant data range (0-1) on the speed of entry decision. The learning or imitation effect from an additional (actual or anticipated) entry by a home rival thus dominates its potential deterring effects. Still, the latter cause the net effect to level off, as ever higher fractions of home rivals are present/expected. Moreover, in line with our theorizing, we find this effect to be stronger with respect to actual competitive actions, as we observe the curve corresponding to the proportion of actual home–based actions to lie above the corresponding curve for anticipated actions. Only when a limited proportion of players is present, retailers (are forced to) derive more 'cognition' from their competitors' anticipated moves. In terms of the size decision (Figure 2B), quite similar conclusions emerge in that the imitation effect dominates when considering the actual and anticipated moves by a chain's home-market competitors (resulting in a positively-sloped curve). Moreover, the impact of actual actions tends to be larger than the impact of the anticipated moves.

With respect to impact of the *foreign* rivals in the host market, the interplay between the imitation and deterrence effect is more diverse. An inverted-U effect was found for the impact of the foreign rivals present in the host market on the speed of entry [$\beta_3 = .585$ ($p < .01$), $\beta_4 = -.812$ ($p < .05$)]. In contrast, the proportion of foreign players anticipated to enter the host market has a strong negative impact on the speed of entry decision [$\beta_7 = -.536$ ($p < .01$), $\beta_8 = -.177$ ($p > .10$)]. With respect to the size decision, a positive effect [$\gamma_3 = .132$ ($p < .01$), $\gamma_4 = .989$ ($p > .10$)] is reported for the actual foreign presence, which again becomes negative when additional foreign activity is expected in the near future [$\gamma_7 = -.140$ ($p < .01$), $\gamma_8 = -.260$ ($p > .10$)]. Figure 3 illustrates these effects.

[11] As the independent variables were mean centered, our results are presented relative to the average within a

---Insert Figure 3 about here---

In contrast to the impact of the home-based rivals, the deterrence effect is much more prevalent when considering the impact of (actual and anticipated) entries by foreign rivals (Figure 3A). With respect to the speed of entry decision, we find that once the actual number exceeds 59%, the imitation effect from an additional entry is outweighed by the deterrence effect, which even dominates over the entire data range in case of anticipated foreign entries. Regarding the size effect, we find that the curve for the foreign players already present is flatter than the corresponding curve for the home competitors suggesting that also in this case the deterrence (imitation) effect is relatively larger (smaller) in case of foreign rivals. When looking at the anticipated entries, when yet another layer of uncertainty is added, the deterrence effect becomes even more pronounced, and, as with the speed decision, a negatively sloped curve is obtained. Hence, even though the relative effect of both forces, imitation and deterrence, varies across the considered cases and across the range of competitive activity, we find, in line with our theorizing, consistent support for the notion that the imitation (deterrence) effect becomes less (more) pronounced as the geographic (home versus foreign) and temporal (current versus anticipated) distance increases.

Firm resources. More international experience, both worldwide and regional, increases the speed of entry [$\beta_9 = .100$ ($p < .01$), $\beta_{10} = .004$ ($p < .01$)], as was expected. Also in line with our hypotheses, we find that regional experience positively impacts the size component [$\gamma_{10} = .004$ ($p < .05$)]. However, contrary to expectations, we find that more international experience results in less stores opened at the time of entry [$\gamma_9 = -.039$ ($p < .10$)]. If retailers operate in many geographically dispersed markets, its resources become more thinly spread, hampering a large-

country.

scale entry in each market. Regional experience, in contrast, ensures the necessary logistic support to open more stores in the Central- and Eastern European region. As predicted, the share of private labels in the assortment negatively influences the speed and size decision [β_{11} = -.005 (p < .05), γ_{11} = -.005 (p < .05)]. The impact of firm size reached statistical significance on neither the speed of entry nor the size decision [β_{12} = -.0002 (p > .10), γ_{12} = .0001 (p > .10)].

Market attractiveness. In line with our expectations, both the speed and size decision are positively influenced by the retail sales expectations in the target country [β_{13} = .001 (p < .05), γ_{13} = .005 (p < .01)]. In contrast, no support was found for the expected negative effect of cultural distance on speed of entry [β_{14} = .006 (p > .10)]. However, we found that fewer outlets are opened at the time of entry as the cultural distance increases [γ_{14} = -.020 (p < .01)], as expected. Likewise, both the speed and size of entry decrease significantly with the geographic distance [β_{15} = -.001 (p < .01), γ_{15} = -.0003 (p < .01)], thereby corroborating our propositions. Next, we find that the speed of entry decision is lower in markets characterized by economic conditions different from the home market, as we report a negative effect for both the differences in GNP per capita and market size [β_{16} = -.039 (p < .05), β_{17} = -.012 (p < .01)]. Likewise, also the size decision is negatively influenced by differences in economic conditions between host and home market [γ_{16} = -.0001 (p < .05), γ_{17} = -.013 (p < .05)], which confirms our expectations.

Finally, as discussed in the method section, we included the timing variable in the size decision. A negative significant effect is found [γ_{18} = -.075 (p < .05, two sided test)].

7. DISCUSSION

In this paper, we used the option lens to get a better understanding of the diversity in entry strategies. Entry decisions can be viewed as organizational investment choices or options. In deciding on the timing and extent of striking these different options, retailers have to find a balance between market uncertainty, the perceived (future) growth opportunities in the various target markets, potential time-dependent (dis)advantages, and managerial discretion. As such, theory-based expectations on various antecedents of the timing and size of expansion decisions into emerging markets were derived. A vast majority of our empirical findings is in line with expectations, which confirms prior claims (Bowman and Hurry 1993) that the option perspective captures managerial intuition on organizational investments, and supports the existence of a certain amount of rationality in making these decisions.

A key driver was found to be the competitors' entry decisions. Especially the moves made by one's home rivals are carefully followed. The presence of home rivals reduces the perceived market uncertainty, as firms with similar backgrounds have already made the move and appear to be successful. This was explicitly acknowledged by France's Auchan, as it cited the presence of its French rivals such as Leclerc and Casino as one of the key drivers to also enter Poland (Polish News Bulletin 2000). Moreover, it explains why national clusters emerged in the early stages of the internationalization wave towards Central and Eastern Europe. Finnish retailers, for example, demonstrate a clear preference for the Baltic countries, while relatively more French retail groups have embarked on entries into Romania. This strong focus on the home rivals' actions is not necessarily nearsighted. The information on their relative success may be more accurate and informative, and entering the same market as one's competitors may

prevent them from monopolizing certain skills that could subsequently proof useful in undermining one's position in the home market.

Nevertheless, we find that the strong impact emanating from the firm's home rivals does not imply that foreign players are completely ignored. Interestingly, however, we find the deterrence effect of the latter's (actual or anticipated) presence to be much more prominent. Anecdotal evidence in support of this result is found in Carrefour's announcement that it postpones its Hungarian expansion in favor of Romania and China to avoid the tough competition of foreign chains such as U.K.'s Tesco or German's Metro (The Grocer 2000). So the more 'distant' competitive actions are in both time and geographic origin, the less learning can be derived from them to reduce the uncertainty inherent in any internationalization decision, and the less perceived future opportunities get confirmed.

The strong positive impact (especially) from the home-market rivals might also be interpreted as supporting the common view that, in their rush to internationalize, retailers tend to be motivated less by the chance of creating value in these new markets than by their fear of being left out by their competitors (The Economist 1999). However, our findings suggest that economic considerations are definitely not ignored. In line with Tesco's recognition of the emerging middle class as a key driver behind its moves into Central and Eastern Europe (Benady 1997), we find a positive effect for a target country's expected retail-sales level, and a negative effect for the wealth differential with the (richer) home country. Interestingly, a negative effect is found for the difference in population size, suggesting that differences in the logistical requirements from what one is used to prevent both an early and a large-scale entry.

Even though the Eastern-European market opened to all players simultaneously, not all of them struck the different options simultaneously, nor to the same extent. This suggests that

not all of them had the necessary resources and capabilities in place that allowed preferential access to the various opportunities that suddenly emerged. Our results help to get a better understanding of these resource requirements, and to better predict the type of entrant one can expect at a certain moment in time. Specifically, we find that both international and regional experience are key organizational factors explaining the timing of international expansion into various emerging markets. As such, apart from the *inter*-organizational learning derived from observing one's (home) competitors' moves, also *intra*-organizational learning is found to be relevant to understand retailers' internationalization paths. Moreover, we find that if retailers enter a considerable number of different countries at a fast pace, it becomes harder to allocate considerable resources to each of them. In line with this observation, the French Casino chain opted to concentrate its effort on a limited number of countries, as it felt that spreading itself too thinly would be inefficient (Dow Jones International News 1998). Even though accumulated (worldwide) learning provides a platform that allows one to speed up subsequent international entries, this tends to come at the expense of the local coverage in the individual countries. The positive effect for regional experience, in contrast, underscores once more the value of a dense enough network to successfully operate in local-service industries.

Moreover, we find that retailers characterized by a large private-label share in their home market tend to be later, smaller-scale entrants. On the demand side, matching new customers' assortment preferences may take longer when private labels substitute for the better-known and, in case of emerging markets, long-expected (inter)national brands. On the supply side, a similar reliance on private labels as in the home market may entail drastic and time-consuming investments in the target country. Tesco, for example, had to convince several of its private-label suppliers to set up offices in Central and Eastern Europe to avoid the costly need to ship these

goods from its UK home base (Benady 1997). Retailers can respond to competition in their maturing home market by diversifying along two dimensions: across product boundaries (e.g. by adding new lines to its private-label program) or across market boundaries (i.e. by entering new countries). Our findings suggest that a trade-off tends to be made between both options, in that prior private-label investments contain an element of inertia that prevents the retailer from quickly/ fully exploiting the other diversification option.

No significant effect was found for firm size. This lack of impact could be driven by a variety of factors. First, the aforementioned two opposing forces (economies of scale versus bureaucratic inertia) could cancel out one another. Second, all firms in our sample had considerable size, in that they belonged to the top 75 European food retailers. More variability in the values of this explanatory variable might well have resulted in a significant effect. Moreover, it is well known that much of the food range tends to be bought locally (Child 2002). Hence, for food retailing, local scale may well be more important than global scale, which is in line with our significant positive impact for the regional-experience variable.

Our results also help to evaluate in what markets early, large-scale entry is more likely to occur. In evaluating the attractiveness of a target market, the potential knowledge transfer between the new host market and the chain's home market (or another market the firm is already operating in) continues to play an important role, even though Gielens and Dekimpe (2001) found that such distance did not affect the retailers' long-run performance levels in the host market. Smaller geographic distance makes it easier to start the required logistic network, while the larger purchasing power reflected in a smaller economic distance increases the perceived opportunities, thereby reducing the perceived uncertainty and alleviating various (economic and/or psychological) barriers to striking an internationalization option. Interestingly, cultural

distance does not affect the timing at which an option is struck, but affects the chain's initial level of commitment. Due to the uncertainty present in culturally distant markets, firms tend to minimize their (initial) resource commitments (cf. Kim and Hwang 1992). In those markets, firms may want to rely more on subsequent intra-organizational learning before committing more resources (cf. Brouthers and Brouthers 2001).

Finally, we find that firms entering late tend to commit smaller resources, in that they open a smaller number of stores in their initial year. Gielens and Dekimpe (2001) studied whether it is more advantageous for retailers to "quickly enter a market on a more limited scale, or to postpone entry until more resources have accumulated to enable a large-scale commitment" (p. 236). Our current findings suggest that food retailers, on average, follow a third strategy, in that firms which tend to be cautious in their timing of striking an option, exhibit a similar constraint when deciding on their level of commitment. Late entrants may thus find it harder to digest large initial investments than innovators (Nehrt 1996). However, such a strategy may well pose a double hazard on their long-term profitability, as both an early and a substantial entry are key determinants of retailers' long-run efficiency in emerging markets (Gielens and Dekimpe 2001).

Future research and limitations

The current study has a number of limitations, which offer useful areas for future research. First, our sample consisted of all entries made by Western-European food retailers towards Central and Eastern Europe. As such, no cross-continental moves were considered. The latter moves are still less frequent, quite recent, and not yet well documented. Still, it would pay to investigate in future research whether our findings generalize to these more distant internationalizations. For example, one might want to study whether the role of cultural and/or geographic distance

increases when dealing with cross-continental expansions. Moreover, even though Western-European food retailers account for over 90% of all international entries in the sector in the considered time span, the gradual international expansion of American and Japanese retailers was not yet reflected in our sample. As non-European retailers become more international oriented, the competitive reference-group concept may need further refinement. If German retailers would consider entering an emerging market like the Ukraine, will comparable legitimization/deterring effects be derived from its French as from its American rivals? Moreover, the US giant Wal-Mart may well constitute a reference group of its own. Given Wal-Mart's recent entries into both developed (e.g. its takeover of Britain's ASDA chain in 1999) and emerging (e.g. its entry in the Chinese market in 1996) markets, it is worth studying how other players in the industry, both incumbents and prospective, react to these moves.

Second, we focused on inter-organizational learning in terms of geographically defined reference groups. However, alternative operationalizations are feasible. For example, will the Danish hard discounter Netto pay closer attention to its Danish rivals (even if their stores are traditional supermarkets), or will it focus on the international expansion strategy of Aldi, the world's leading hard discounter? If Carrefour, the world's second largest retailer, further steps up its international expansion, will it be more inclined to trace the moves of the numbers one (Wal-Mart) and three (Metro), or will it still pay most attention to its French rivals, such as Auchan and Leclerc, even though of smaller size? More research is needed to assess the relative value of these alternative (format- or size-based) reference-group definitions.

Third, Martin et al. (1998) suggest that also the international expansion strategy of upstream channel members matters. Given the importance of good supply chains, retailers may want to also monitor the investment decisions of key FMCG manufacturers.

Finally, the option to enter reflects a lumpy investment on the part of the retailers. We did not yet consider the subsequent options for future growth, which involve more incremental investments. Different processes underlie a firm's decision to strike either type of option (Bar-Ilan and Strange 1999), if only because different strategies are available to reduce the intrinsic uncertainty. In case of an initial entry (as in our study), no own experience into the specific target market is present within the company. External sources of information (such as an observation of competitors' moves) are therefore crucial to reduce the perceived level of uncertainty. In contrast, decisions for future growth can be driven by one's own experience in the market, thereby allowing for a more direct way of uncertainty reduction (Rivoli and Salorio 1996). It is yet unclear, however, what role other players' moves still play in these decisions, nor whether home competitors continue to be monitored more closely when deciding on post-entry growth decisions.

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Figure 1: Conceptual Framework

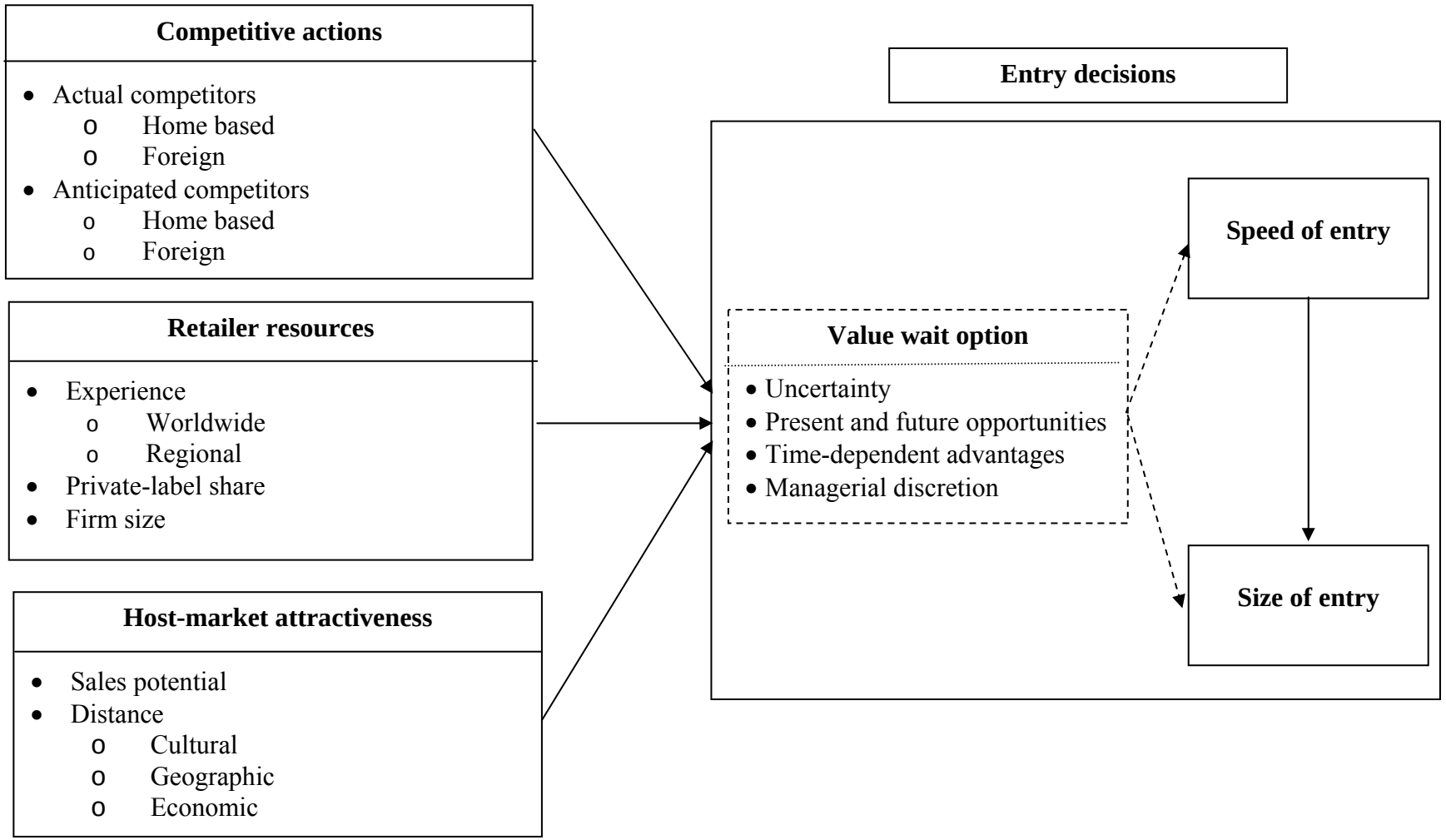
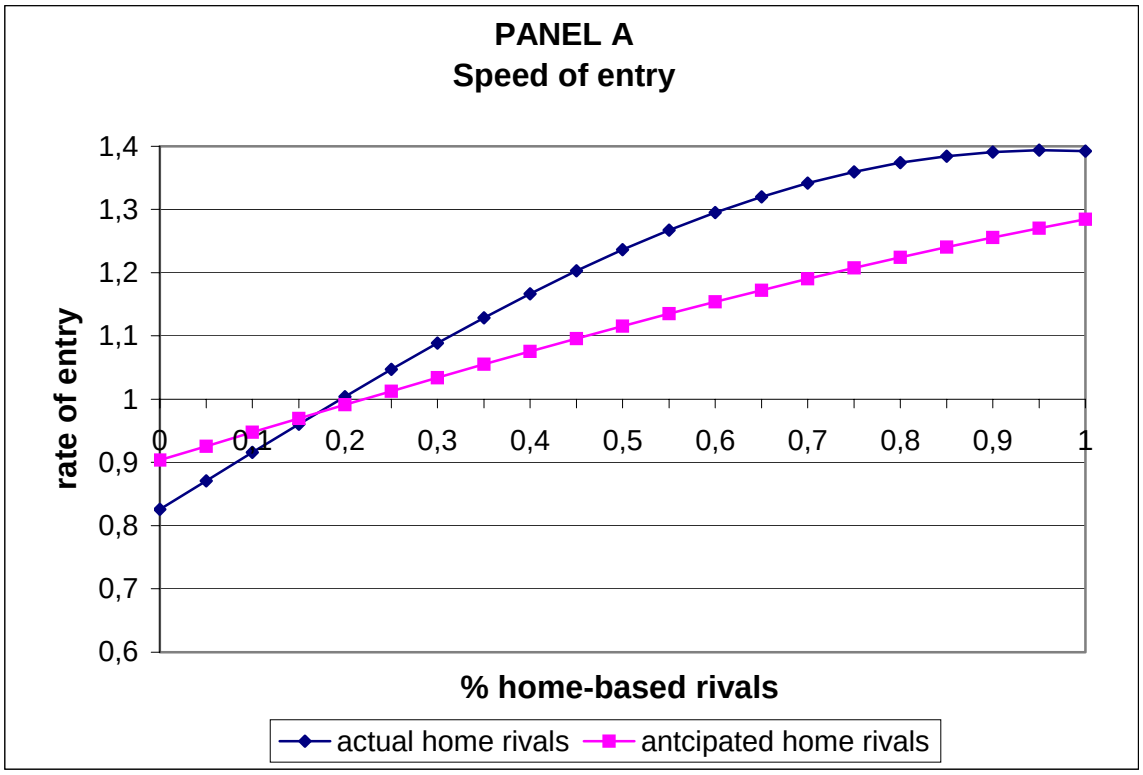


Figure 2: The Impact of Home-based Rivals



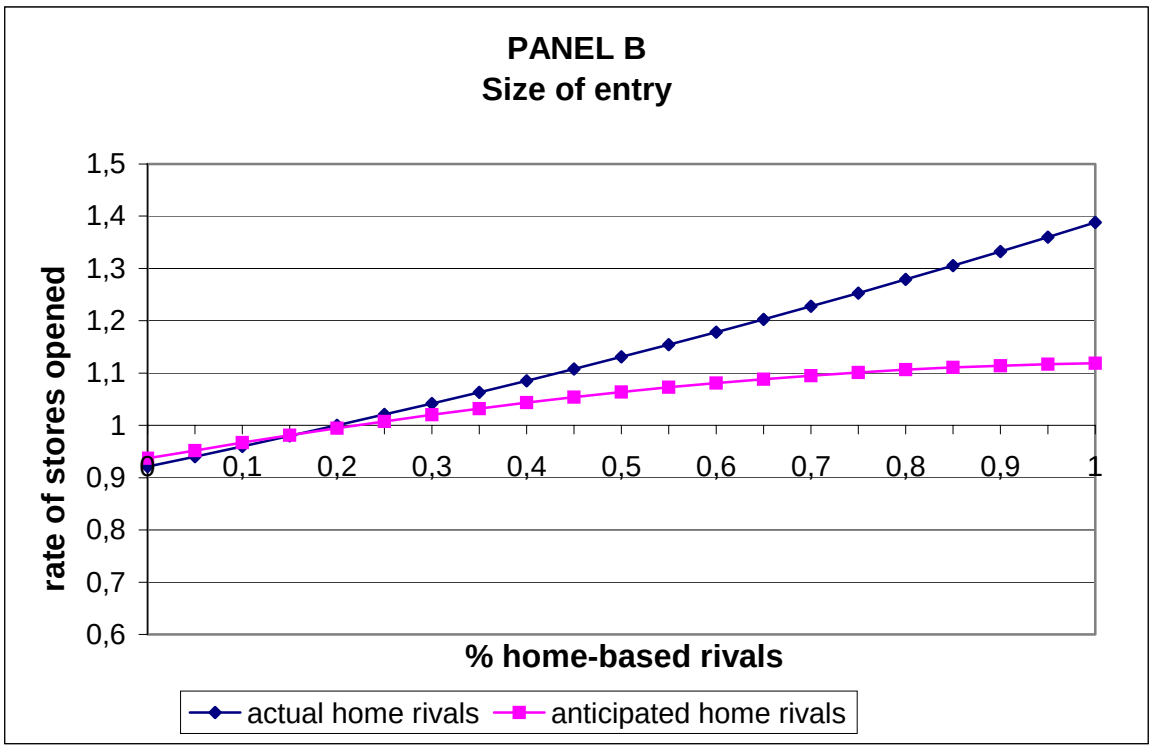
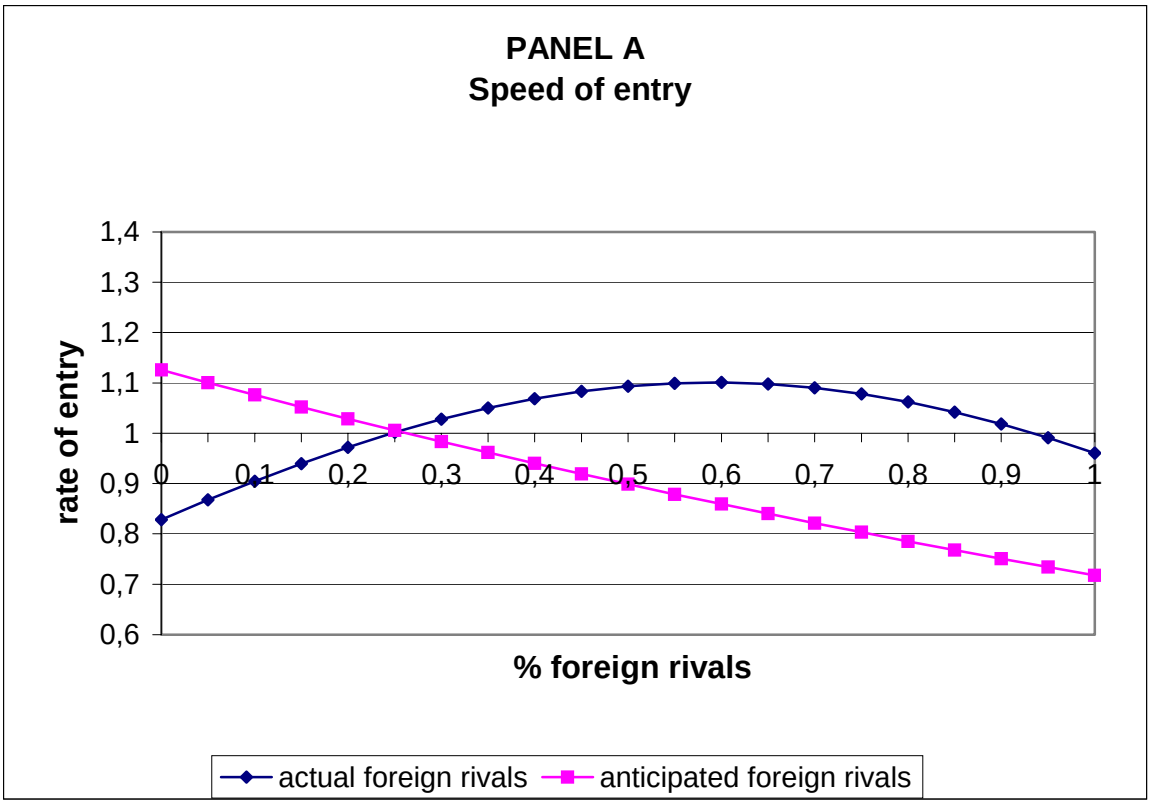


Figure 3: The Impact of Foreign Rivals



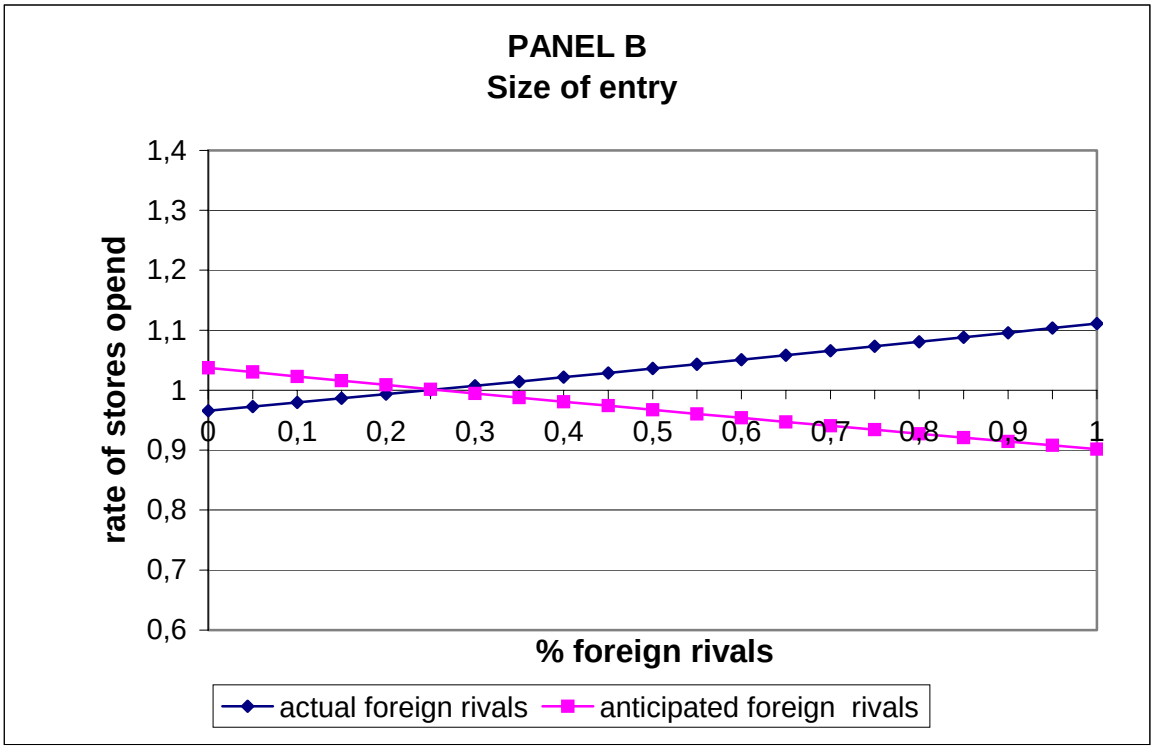


Table 1: Results

	Speed of entry		Size of entry	
	β	|*t-value*|	γ	|*t-value*|
Competitive actions				
Actual home-based players (β_1, γ_1)	.939	9.29[a]	.418	5.02[a]
Actual home-based players^2 (β_2, γ_2)	-.534	5.23[a]	-.612	.97
Actual foreign players (β_3, γ_3)	.585	4.47[a]	.132	4.32[a]
Actual foreign players^2 (β_4, γ_4)	-.812	1.82[b]	.989	0.95
Anticipated home-based players (β_5, γ_5)	.446	4.49[a]	.263	9.04[a]
Anticipated home-based players^2 (β_6, γ_6)	-.139	2.58[a]	-.153	7.24[a]
Anticipated foreign players (β_7, γ_7)	-.536	3.32[a]	-.140	7.61[a]
Anticipated foreign players^2 (β_8, γ_8)	-.177	0.55	-.260	.782
Firm				
Worldwide experience (β_9, γ_9)	.100	5.35[a]	-.039	1.63[c]
Regional experience (β_{10}, γ_{10})	.004	4.01[a]	.004	2.05[b]
Private label share (β_{11}, γ_{11})	-.005	1.87[b]	-.005	1.85[b]
Firm size (β_{12}, γ_{12})	-.0002	.41	.0001	.34
Host market attractiveness				
Expected retail sales (β_{13}, γ_{13})	.001	2.31[b]	.005	9.21[a]
Cultural distance (β_{14}, γ_{14})	.006	0.31	-.020	3.95[a]
Geographic distance (β_{15}, γ_{15})	-.001	4.54[a]	-.0003	2.96[a]
GNP/cap difference (β_{16}, γ_{16})	-.039	1.72[b]	-.0001	1.80[b]
Population (β_{17}, γ_{17})	-.012	3.25[a]	-.013	1.78[b]
Timing (γ_{18})			-.075	2.01[d]

[a]: $p < .01$ (one-sided), [b]: $p < .05$ (one-sided), [c]: $p < .10$ (one-sided), and [d]: $p < .05$ (two-sided).

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