STORE FORMAT DIVERSIFICATION, CUSTOMER ORIENTATION AND THE PERFORMANCE OF FOREIGN RETAILERS

DIVERSIFICACIÓN DEL FORMATO DE LA TIENDA, ORIENTACIÓN AL CLIENTE Y DESEMPEÑO DE LOS MINORISTAS EXTRANJEROS

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Abstract

Foreign retailers contend with unrelenting challenges to discover and resolve issues affecting their performance in different host country markets. These retailers bear some wealth of international experience and also some liability of foreignness. Accordingly, managers of foreign retailers must enact strategic decisions that will position their businesses in order to be competitive and profitable. In this study, the authors examine two generally overlooked factors —degree of store format diversification and customer orientation— relating to improved foreign retailer performance. The authors also investigate the potential moderating effects of three host country characteristics —retail modernization, collectivism, and uncertainty avoidance— on this relationship. Based on the 2001-2015 panel data for 24 international retailers, results for main effects indicate that foreign retailer performance is influenced negatively by store format diversification and positively by customer orientation. These effects are moderated by host country retail modernization, collectivism, and uncertainty avoidance. In particular, host country retail modernization reverses, from negative to positive, the influence of store format diversification on foreign retailer performance. Furthermore, both collectivism and uncertainty avoidance strengthen the positive influence of customer orientation on foreign retailer performance. Finally, uncertainty avoidance strengthens the negative influence of store format diversification on foreign retailer performance.

Keywords: Foreign retailers, store format diversification, customer orientation, retail modernization, collectivism, uncertainty avoidance

Resumen

Los minoristas extranjeros enfrentan desafíos implacables para descubrir y resolver problemas que afectan su desempeño en los diferentes mercados de los países anfitriones. Estos minoristas tienen una gran experiencia internacional y también cierta responsabilidad por ser extranjeros. En consecuencia, los gerentes de los minoristas extranjeros deben adoptar decisiones estratégicas que posicionen a sus negocios para que sean competitivos y rentables. En este artículo los autores examinan dos factores que generalmente se pasan por alto (el grado de diversificación del formato de la tienda y la orientación al cliente) relacionados con la mejora del desempeño de los minoristas extranjeros. Los autores también investigan los posibles efectos moderadores de tres características del país anfitrión (modernización minorista,

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colectivismo y rechazo de la incertidumbre) en esta relación. A partir de datos de panel de 2001-2015 para 24 minoristas internacionales, los resultados de los efectos principales indican que el desempeño de los minoristas extranjeros está influenciado de manera negativa por la diversificación del formato de las tiendas y de manera positiva por la orientación al cliente. Estos efectos son moderados por la modernización minorista del país anfitrión, el colectivismo y el rechazo de la incertidumbre. En particular, la modernización minorista del país anfitrión revierte de negativa a positiva la influencia de la diversificación del formato de tienda en el desempeño de los minoristas extranjeros. Además, tanto el colectivismo como el rechazo de la incertidumbre fortalecen la influencia positiva de la orientación al cliente en el desempeño de los minoristas extranjeros. Por último, evitar la incertidumbre refuerza la influencia negativa de la diversificación del formato de las tiendas en el desempeño de los minoristas extranjeros.

Palabras clave: minoristas extranjeros, diversificación de formatos de tiendas, orientación al cliente, modernización minorista, colectivismo, rechazo de la incertidumbre.

Introduction

Over the last two decades, international retailers have created new store formats in response to global trends, opportunities, and challenges related to customer demand. With these diversified store formats, retailers have tried to position themselves as relevant, competitive, and consumer-focused businesses that are capable of serving multiple market segments (Colla, 2003; Colla, 1994). For example, French retailer, Carrefour, was synonymous with the hypermarket, but has recently introduced diverse neighbourhood-type store formats —Carrefour Express, Carrefour Mini, Carrefour Mini-hyper and Carrefour Easy— in many foreign markets, consequently showing the brand's responsiveness to urban consumers' preferences for convenience (Colla & Dupuis, 2002). UK retailer, Tesco, has operated in a similar way, presenting multiple store formats, such as Tesco Extra, Tesco Metro, and Tesco Express. Given that foreign retailers do business throughout multiple countries, their decisions about store counts and formats take on considerable importance, due to the substantial financial commitments, human resource investments, and management coordination involved (Chan et al., 2011). With so much potential risk and reward at stake, foreign retailers must have a good understanding of how diversification of their store format portfolio can influence host country market performance. Likewise, they find it imperative to be customer-oriented in order to meet constantly evolving expectations of consumers from one country to the next. This issue is especially significant for businesses that aim to ensure seamless, satisfying, and repeat-worthy customer experiences. For international retailers that serve diverse customer tastes within and across many different countries, it becomes critical to query the benefits of having a customer orientation, defined as the degree to which a firm has a customer focus and is thus predisposed to serving customers (Brown et al., 2002; Kohli & Jaworksi, 1990; Narver & Slater, 1990).

In light of the above issues, it is surprising that scholarly research has paid little attention to store format diversification and customer orientation and their effect on foreign retailers' performance. In response, the authors of this study examine the influences of these factors, and also consider the moderating impact of three host country factors —retail modernization, collectivism, and uncertainty avoidance— which have the potential to change both the competitive landscape and consumer shopping behaviour in the retail sector (D'Andrea, 2010; Goldman et al., 1999; Goldman et al., 2002).

This paper aims to address two key questions: (1) How do store format diversification and customer orientation influence foreign retailers' performance? (2) Can either of these influences be moderated by retail modernization? Accordingly, in the sections that follow, the authors identify key background literature on store format diversification, customer orientation, retail modernization, national culture, and other pertinent concepts germane to foreign retail businesses. Next, the authors develop a series of hypotheses relating the aforementioned concepts to foreign retailer performance in terms of direct and moderating effects. Finally, results and findings are presented along with a discussion of theoretical and managerial implications.

Background Literature

Store Format Diversification

In the retail literature, store formats are defined as competing categories of store types, offering specific benefits to address the needs of different customer types and buying situations (Gonzalez-Benito et al., 2005). Marketing scholars generally agree that consumers' store choice behaviour is affected and patterned by their geographic, demographic, and psychological characteristics (Carpenter & Moore, 2006; Fox et al., 2004; Gupta & Chintagunta,

1994; Nilsson et al., 2015; Sinha & Banerjee, 2004; Reynolds et al., 2002). Therefore, retailers' strategic positioning is primarily formulated, and can be understood, on the basis of the store formats they operate (Levy et al., 2014). Drawing on well-established academic efforts that affirm the relationship between shoppers' characteristics and store format choice, scholars became interested in how retailers' performance is shaped by the variety of store formats that retailers operate. For example, it has been found that retailers can enhance their market share by operating multiple retail store formats that effectively cater to a variety of consumers' shopping needs and preferences (Gauri et al., 2008; Goldman, 2001; Gonzalez-Benito et al., 2005). Viewed from another angle, selling through additional store formats can increase operational complexities and commitments, such as handling a larger number of stock keeping units (SKUs), frequently modifying the retail mix, and coordinating with multiple retail agents (Zhang et al., 2010). Notably, the performance implications of store format diversification may be greater for retailers operating in foreign markets than the ones which are solely dedicated to domestic operations, given that foreign retailers typically face a strategic dilemma whether to extend or adapt their store formats (often by devising new store formats) to each host market (Kumar et al., 2015; Zielke & Komor, 2015). International marketing scholars have thus investigated the topic of store format diversification to explain if, when, and how well foreign retailers tailor their store formats to different host markets and local consumers (Gielens & Dekimpe, 2007; Jonsson & Foss, 2011; Swoboda & Elsner, 2013). Still, more research is needed to understand the manifestations and intricacies of the topic. For example, using a sample of the top 200 global retailers drawn from the 2005 Global Powers of Retailing data, Chan et al. (2011) found a negative association between the number of retail formats and retailers' sales growth. They conceptualize a retailer's knowledge and skills with respect to operating one or more retail formats as retail portfolio management (RPM) capabilities, with the construct being measured by the number of formats managed by retailers (Chan et al., 2011). However, the authors attribute the partial support for the link between RPM capabilities and performance to a poor proxy for the construct, calling for making use of an entropy measure.

Customer Orientation

Companies that want to achieve and sustain long-term profitability should prioritize customers' interests (Despnadé et al., 1993). To this end, customer orientation is an essential component of market-driven organizations, as these firms are dedicated to delivering superior custo-

mer value (Despnadé & Farley, 1998; Kohli & Jaworksi, 1990; Peters & Austin, 1985). Customer orientation inclines firms to attend to the specific problems and needs of customers, ultimately enabling them to create superior value for the target market (Jaworski and Kohli, 1993; Kohli and Jaworksi, 1990; Narver and Slater, 1990,). Since customer orientation is a key source of success and growth for service organizations, it has been extensively examined in the services literature (Brown et al., 2002, Despnadé et al., 1993; Donavan et al., 2004; Saxe & Weitz, 1982). Within a retail setting, customer orientation is positively related to customer satisfaction (Goff et al., 1997), though its impact on firm performance lacks a conclusive finding (Kara et al., 2005; Noble et al., 2002). Of note, anecdotal assertions have pointed to a positive relationship between customer orientation and foreign retailer performance (Rogers et al., 2005).

In the context of international operations, scholars suggest that customer orientation should be cultivated as an essential part of an organization's business culture (Cadogan et al., 2002; Racela et al., 2007)2007. Specifically, when operating across a myriad of foreign markets, firms not only need to gain substantial knowledge about each host country environment, which is a very challenging task of its own, but they also need to have a good understanding of the internal and external factors that might affect their ability to implement a customer-oriented business model (Cadogan et al., 2002). However, despite mounting research attention regarding this topic, market orientation in general and customer orientation in particular still remain in need of more research when it comes to international marketing literature (Cadogan, 2012; Racela et al., 2007).

National Culture

National cultural values play significant roles in shaping consumers' lifestyles, preferences, and behaviours in every society (Steenkamp & De Jong, 2010; Steenkamp & Geyskens, 2006; Usunier & Cestre, 2007). Cultural norms affect not only what products consumers purchase, but also the types of stores that consumers patronize (Dimitrova et al., 2016; Hino, 2010). Therefore, it is logical that a nation's culture could have important implications on the performance of foreign retailers.

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). In this study, we employ the Global Leadership and Organizational Effectiveness (GLOBE) project's national cultural

value framework, which is based on Hofstede's national cultural value dimensions. The purpose of the GLOBE project is to examine the interrelationships among societal culture, organizational culture, and organizational leadership (House et al., 2010). Although Hofstede's national cultural value framework is regarded as one of the most influential works in the area of culture, it has drawn much criticism for being based on a survey of a single organization in the 1980's. The GLOBE scores, on the other hand, have been updated more recently and more broadly, making them presumably more useful than Hofstede's scores. Nine cultural dimensions comprise the GLOBE project's national cultural value framework: (1) power distance, (2) uncertainty avoidance, (3) humane orientation, (4) institutional collectivism, (5) in-group collectivism, (6) assertiveness, (7) gender egalitarianism, (8) future orientation, and (9) performance orientation. Given our particular research topic, we focus on collectivism and uncertainty avoidance, given that they are the most theoretically relevant dimensions.

Collectivism refers to the degree to which societies put the interests of the group over the interests of the individual, thus emphasizing social ties (i.e., with extended family and the community) and group norms (Hofstede, 2001; House et al., 2010). People in collectivistic societies thus respect in-group goals, value other peoples' opinions, and view their social network as a reliable source of information. Uncertainty avoidance captures the extent to which members of a given society avoid uncertainty and ambiguity (Hofstede, 2001; House et al., 2010). People in high uncertainty avoidance cultures tend to follow strict codes of belief and behaviour and are risk-averse, thus not being particularly open to innovation because of the uncertainty it brings with it (De Mooij, 2010; De Mooij & Hofstede, 2011; Hofstede et al., 2010). Collectivism and uncertainty avoidance affect consumer shopping patterns, meaning that they might subsequently affect consumer store choice (e.g., different store formats consumers shop in as well as consumer tendency to patronize domestic vs. foreign retailers and vice versa) and, ultimately, retailer performance (De Mooij, 2010; De Mooij & Hofstede, 2002; De Mooij & Hofstede, 2011).

Hypotheses Development

Influence of Store Format Diversification on Foreign Retailer Performance

We define store format diversification as the degree to which a retailer's store portfolio includes a balanced combination, or ratio, of store formats. Accordingly, highly diversified retailers might operate hypermarkets, supermarkets, neighbourhood stores, and convenience stores rather than only hypermarkets and supermarkets within a single country. Additionally, such retailers would tend to provide a more balanced number of stores across store formats (e.g., 50 stores in each of two store formats versus 90 and 10 stores, respectively). A retailer's store format portfolio is thus comprised of breadth (i.e., number of store formats) and balance (i.e., similar number of stores across store formats). To explicate the relationship between store format diversification and foreign retailer performance, we build on product portfolio management research (Caldieraro et al., 2015; Draganska & Jain, 2005; Kekre & Srinivasan, 1990). This stream of research is directly related to the relationships investigated here because a retailer's "product" essentially manifests most evidently in the stores and store formats it operates. Thus, like manufacturers, retailers must determine how to manage the product (i.e., store) lines within their portfolio.

Store format diversification brings about potential benefits and costs that should be considered. In terms of benefits, retailers operating multiple store formats can be better positioned to satisfy the needs of different consumer segments. For example, a retailer may have small store formats that target busy city dwellers looking for a quicker, frequent, and streamlined shopping experience; the same retailer may have a hypermarket that targets consumers looking for a less frequent, one-stop shopping convenience. Even with these benefits, there are drawbacks that must be acknowledged. First, when retailers diversify their store format portfolio, they generally require more financial, technical, and human resources to run stores efficiently and effectively, invariably leading to an overall cost increase. Specifically, research has shown that firms that offer greater product variety can experience substantial cost increases, such that potential gains in consumers and sales might not be enough to achieve performance targets (Bayus & Putsis, 1999; Draganska & Jain, 2005). In addition, the operation of a broad and balanced store format portfolio would require a growing number of tasks to be completed and coordination across these tasks might prove to be difficult, not just from a management but also a financial (i.e., increasing expenses) perspective (Hayes & Wheelright, 1984; Lawrence & Lorsch, 1967). Moreover, the aforementioned downsides of store format diversification would be magnified in an international scenario due to the numerous challenges associated with establishing and supporting diversified retail operations across nations (Cardinali & Bellini, 2014; Dimitrova et al., 2016; Hoppner and Griffith, 2015). All else being equal, we thus argue that store

format diversification will have a negative impact on a foreign retailer's performance. Formally:

H1: Store format diversification is negatively related to foreign retailer performance.

Influence of Customer Orientation on Foreign Retailer Performance

The degree of customer orientation implemented by a firm reflects its capability to acquire information about its customers and disseminate it throughout the organization in an effort to satisfy current customer needs and anticipate future customer trends (Jaworski & Kohli, 1993; Kohli & Jaworksi, 1990; Narver & Slater, 1990). As previously mentioned, customer orientation is a key component of market-driven organizations (Kohli & Jaworksi, 1990; Narver & Slater, 1990). A market-driven organizational culture is reflected in multiple aspects of the business, one of which is its interaction with and tendency to create additional benefits for customers, thus emphasizing customer orientation (Jaworski & Kohli, 1993; Kohli & Jaworksi, 1990; Narver & Slater, 1990). Customer-oriented firms stay close to and really understand the customer by focusing on relational (as opposed to transactional) exchanges, building long-term buyer-seller relationships, and eventually establishing a loyal customer base (Flynn, 2005). A strong customer orientation allows firms to quickly respond to customers' needs as well as changes in these needs, which leads to high levels of customer satisfaction and, ultimately, improved business performance (Narver & Slater, 1990). As such, customer orientation is of particular importance for success when firms operate in foreign markets. Specifically, due to the lack of substantial knowledge of local consumer tastes and preferences, firms need to have a customer focus in order to serve their customers in a given host country in a way that will encourage repeat patronage. Thus, we argue that foreign retailers which are customer-oriented will be able to reap the benefits of customer orientation because they will be able to, not only meet the needs, but also exceed the expectations of local customers, which will in turn be rewarded with high levels of business performance. Hence:

H2 Customer orientation is positively related to foreign retailer performance.

Moderating Influence of Host Country Retail Modernization

Retail modernization is the degree to which a country's retail structure is comprised primarily of large, modern stores such as hypermarkets, supermarkets, discounters, and shopping malls as opposed to traditional, small stores (D'Andrea, 2010; Goldman et al., 1999; Goldman et al., 2002). Modern retailers tend to dominate the retail landscape as they have considerable resources and, thus, market power. To posit the moderating role of host country retail modernization on the relationship between store format diversification and foreign retailer performance, we draw on the premise that new retail institutions or formats emerge as a consequence of the adaptation to various customer needs and environmental forces (Levy et al., 2014). As we discussed earlier, despite its cost-related disadvantages, store format diversification can still create a competitive advantage for foreign retailers in terms of catering to various customer needs through the operation of multiple store formats, considering that retail customers typically choose between various types of store formats according to their incomes, patterns of consumption, and shopping preferences (Gauri et al. 2008; Goldman 2001; Gonzalez-Benito et al. 2005). Towards this end, the fortunes of foreign retailers operating various store formats are contingent upon their capabilities concerned with the processes of market intelligence generation by which superior market/consumer knowledge may be deployed by foreign retailers in order to develop various store formats in accordance with the aforementioned factors driving shoppers' store format choice. Since host country modernization indicates the degree to which a host country's retail structure is comprised of large, modern type of retail stores in the country, it has an implication for foreign retailers that there must have been considerable, industry-wide efforts to examine and cluster the demographic and psychographic profiles of shoppers in a given host country. This further implies that the overall retail landscape has also evolved accordingly, accompanied by the foundation and operation of institutions that specialize in developing shopper typologies that can be leveraged to discern target customers who can be best served by a particular type of store format. The prevalence of such organizations focusing on understanding demographic attributes and current needs of retail consumers should enable multi-format foreign retailers to reinforce their capability of serving various customer needs by best aligning different store formats with the most promising shopper segments, respectively. We thus argue that host country retail modernization will reverse the negative impact of store format diversification on foreign retailer performance such that store format diversification will be positively related to foreign retailer performance when the host country retail modernization is high. When it comes to the moderating role of host country retail modernization on the relationship between

customer orientation and the performance of foreign retailers, we draw on the same premise that new retail institutions or formats emerge as a consequence of the adaptation to various customer needs and environmental forces (Levy et al. 2014). Coupling this premise with the aforementioned definition of host country retail modernization, it can be argued that host country retail modernization is accompanied by the foundation and operation of market-relating organizations focusing on identifying changing market trends and associated business opportunities. Leveraging the expertise of such marketing agencies should offer foreign retailers ample opportunities to strengthen the capabilities concerned with the essence of customer orientation such as the generation of market intelligence pertaining to evolving, ever-changing customer needs, and organization-wide responsiveness to it, which will contribute to the even stronger performance of customer-oriented foreign retailers. Combining the arguments above, we advance the following hypotheses.

H3: Host country retail modernization reverses the negative impact of store format diversification on foreign retailer performance.

H4: Host country retail modernization strengthens the positive impact of customer orientation on foreign retailer performance.

Moderating Influence of Host Country Collectivism and Uncertainty Avoidance

In individualist cultures, consumers place great importance on the ability to express their uniqueness by highlighting differentiation and therefore tend to engage in more variety-seeking behaviour than consumers in collectivism cultures (Kwok & Uncles, 2005). Applied to store format diversification in an international setting, this implies that customers from cultures high in collectivism values are less willing to enrich their shopping experience through exploring and patronizing various store formats, which makes it more difficult for foreign retailers to achieve the goal of generating revenues from new customer segments through attracting more shoppers to their various store formats. As a result, foreign retailers are more likely to undergo difficulty in recouping the substantial costs incurred from the operation of diversified store formats when they operate in countries high in collectivism. In relation to this, we theorize that host country collectivism negatively moderates the relationship between store format diversification and foreign retailer performance.

At the interface of this cultural dimension and customer orientation, we expect that host country collectivism helps

foreign retailers to build stronger relationships with their consumers with such cultural characteristics, which will in turn lead to their superior performance. People in collectivist cultures are known to have strong dependence on groups and value commonalities, which leads to the assumption that consumers from collectivist cultures are more likely to allow the needs of the group to come before their own individual needs (Triandis, 2005). As stated earlier, the organization-wide generation and dissemination of market intelligence owing to a superior understanding of customer needs is the performance driver of market orientation. In the case of an international retailing, the characteristics of collectivist cultures will enable customer oriented foreign retailers to develop superior understanding of and responsiveness to current and future needs of local customers more easily in collectivist cultures than in individualist countries given that collectivistic consumers are susceptible to group influence and therefore likely to be similar to each other in terms of purchase decisions and shopping patterns. Moreover, since collectivism emphasizes a reliance on relational exchanges, consumers in such cultures are usually more receptive of firms that follow the philosophy of customer orientation in pursuit of long-term customer relationships than those in individualist cultures (Flynn, 2005; Korschun et al., 2014). Hence, through careful design and the implementation of effective customer orientation strategies, foreign retailers can lead collectivist consumers to perceive their stores as part of such consumers' in-group, which results in the increased levels of consumer trust and a consequential loyal customer base which are essential for achieving superior performance (Bhattacharaya & Sen, 2003). Combining the arguments above, we posit that collectivism reinforces the positive relationship between customer orientation and foreign retailer performance.

Regarding the cultural dimension of uncertainty avoidance, research has shown that, compared to consumers in low uncertainty avoidance cultures, consumers in high-uncertainty-avoidance societies tend to avoid risk and are hesitant to try new things (De Mooij & Hofstede 2002). In the context of international retailing, we propose that consumers in high-uncertainty avoidance-cultures are less likely to patronize foreign retail stores that are new to them in terms of store format type due to a lack of familiarity with the store format, which in turn reduces the revenue source coming from the operation of diversified retail formats. As stated previously, store format diversification entails substantial operational and management costs, and this high level of costs becomes more difficult for foreign retailers to recoup when they struggle to entice risk-averse local consumers toward their varied types of stores. Hence, with the increased challenge of luring customers into new

and various store formats in high-uncertainty avoidance countries where local shoppers seek a higher level of confidence and stability for retailers, we expect host country uncertainty avoidance to strengthen (worsen) the negative relationship between store format diversification and foreign retailer performance.

Coupling this cultural dimension with customer orientation, we expect that foreign retailers pursuing customer orientation might perform even stronger in markets high in uncertainty avoidance, in that customers with a lower tolerance of uncertainty tend to avoid risk and therefore prefer stores with which they can easily establish trust. Research in relationship marketing suggests that customer orientation may lead to superior performance for a firm through cultivating and leveraging a trusted and committed relationship between the firm and its customers (Walter & Ritter, 2003). To be more precise, Walter and Ritter (2003) suggest that, since customer orientation represents the firm's distinct interests and actions to handle the customer's problems, customer-oriented strategy helps firms to develop and sustain a trusted and committed relationship between them and their customers. In this regard, customers with high levels of uncertainty avoidance may thus be more likely to be receptive and in favour of foreign retailers who place consistent emphasis on building strong relationships with customers. Therefore, we believe that uncertainty avoidance should strengthen the positive relationship between customer orientation and foreign retailer performance. Based on the discussion above, we advance the following hypotheses:

H5: Host country collectivism strengthens the negative impact of store format diversification on foreign retailer performance.

H6: Host country collectivism strengthens the positive impact of customer orientation on foreign retailer performance.

H7: Host country uncertainty avoidance strengthens the negative impact of store format diversification on foreign retailer performance.

H8 Host country uncertainty avoidance strengthens the positive impact of customer orientation on foreign retailer performance.

The hypotheses above lay the foundation for the conceptual model developed in this study (see Figure 1). The model shows the direct effects of store format diversification and customer orientation on foreign retailer per-

formance, along with the moderating effects of host country characteristics – host country retail modernization, collectivism, and uncertainty avoidance, on the main relationships examined herein.

Figure 1. Impact Of Store Format Diversification and Customer Orientation On Foreign Retailer Performance
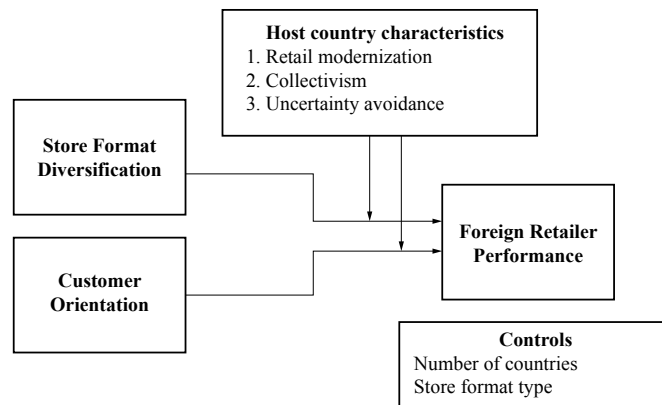
Note: The empirical model also controls for all retailer, home and host country-specific effects, as well as business cycle effects.

Method

Sample

The sample for the study consists of 24 retailers that have expanded, to varying degrees, beyond their home markets. Those retailers represent three continents and several home countries, including the United States of America, Chile, Russia, Germany, and Netherlands, for example (see Table 1). Data were obtained from Planet Retail, a provider of global retail data, and cover the period 2001-2015, with all sales adjusted to 2015 values.

Measures

Foreign Retailer Performance. Foreign retailer performance is measured using the natural log of sales per store in a given host country. Unlike some other retail key performance indicators (KPIs) that have been used to date, our measure accounts for the performance of a retailer's brick-and-mortar operations, which is important to consider, given the challenges these retailers have had to overcome due to the expansion of e-commerce. Moreover, sales per store as KPI factors in the number of stores operated by a retailer, thus accounting for size and expansion capability, two factors that could potentially bias the results since larger firms have greater resources for expanding at a superior pace and scale than smaller firms.

*Store Format Diversification. S*tore format diversification is measured using an entropy index (Bogetić & Fox,

Table 1. List of Sampled Retailers and Home Country

Retailer	Home country
Ahold Delhaize	Netherlands
Aldi	Germany
Auchan	France
BJ's Wholesale Club	USA
Carrefour	France
Casino	France
Costco	USA
Falabella	Chile
Giant Stores	USA
Kroger	USA
Leclerc	France
Marks & Spencer	Great Britain
Mercator	Slovenia
Metro Group	Germany
Metro Retail Stores Group	Germany
Metro Superstores	Germany
Rewe Group	Germany
Safeway	USA
Sainsbury	Great Britain
Schwarz Group	Germany
Shoprite	USA
Tesco	Great Britain
Walmart	USA
X5 Retail Group	Russia

1993; Keep et al., 1996). The entropy index of store format diversification for each retailer in a given year is calculated using the following formula:

Where P_i is the proportion of store counts in store format i and $ln(1/P_i)$ is the weight for store format i for a retailer operating N different store formats. The entropy index thus captures a retailer's store format breadth and balance across store formats, thus being a superior measure of store format diversification than just the number of stores operated by a retailer (Chan et al., 2011).

Customer Orientation. Customer orientation is measured using the natural log of a retailer's total number of checkouts. As mentioned earlier, this study focuses on retailers' brick-and-mortar operations. Accordingly, the number of checkouts reflects the degree to which a retailer conveys being customer-oriented by staying close to the customer. Interactions with store employees often occur at the checkouts; during these interactions customers can share their experience in a store and provide feedback that could help a retailer improve how it serves its patrons. Moreover, since we have data for each host country and year of operation, our measure of customer orientation enables us to capture the extent of a retailer's customer orientation in each foreign market and year.

Host Country Retail Modernization. Host country retail modernization is based on total market share of modern retailers operating in a given host country. The measure reflects total sales, including total grocery, non-grocery, and service for retail formats categorized within the modern grocery distribution (MGD) as a percentage of total MGD market sales.

Host Country Uncertainty Avoidance and Collectivism. Host country uncertainty avoidance and collectivism for each host country were obtained from index scores in the Global Leadership and Organizational Effectiveness (GLOBE) project (House et al., 2010).

Control Variables. Several control variables are included in our analysis. First, we control for the cultural and political distance between a retailer's home and host country. Cultural distance is determined using the following formula (Reus & Lamont, 2009):

Where 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 GLOBE study's nine 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.

Six of the World Governance Indicators (WGI) are included to measure political distance between a retailer's home and host country. These indicators are voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption (Kaufmann et al., 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 et al., 2012):

Where 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.

Other controls include the retailer's total number of countries of operation for each year (number of countries) and a dummy variable for all store formats operated by a retailer in each host country (store format type) as control variables. These two control variables were included to control for the size of the retailers included in our sample. Paired correlations for all variables are shown in Table 2.

Table 2. Correlation Table

	Performance	Store format diversification	Customer orientation	Cultural distance	Political distance	Number of countries	Host country retail modernization	Store format type	Host country UAI	Host country collectivism
Performance	1.00									
Store format diversification	-.08***	1.00								
Customer orientation	.33***	-.14***	1.00							
Cultural distance	-.06***	.07***	-.04	1.00						
Political distance	.16***	-.31***	.32***	-.17***	1.00					
Number of countries	-.14***	.50***	-.15***	.08***	-.19***	1.00				
Host country retail modernization	.12***	.01	.26***	-.01	.07***	.04***	1.00			
Store format type	.28***	.10***	-.09***	.00	-.09***	-.14***	.00	1.00		
Host country UAI	-.07***	.32***	-.18***	.04***	-.77***	.19***	-.19***	.04**	1.00	
Host country collectivism	.08***	.07***	-.02	-.48***	-.18***	-.02	.01	.05***	.33***	1.00

*** p < .001, ** p < .01, * p < .05

Empirical Model

Our panel data are analysed with a fixed effects model that extends the controls mentioned above by including dummy variables that account for the following: (1) retailer-specific effects, such as managerial structure, experience, and quality; (2) time fixed effects which control for yearly business cycle effects; and (3) home and host country fixed effects which control for observable and unobservable country-specific characteristics (Cameron & Trivedi, 2005; Greene, 2008; Wooldridge, 2002). The model is estimated using a generalized linear model since our dependent variable is not normally distributed; the model also controls for heteroskedasticity (Greene 2008; Wooldridge 2002). The empirical model is specified as follows:

$$ln\text{P}_{ijt} = \alpha_0 + \alpha_1 \text{SF diversification}_{ijt} + \alpha_2 \text{Customer orientation}_{ijt} + \alpha_3 \text{Host country retail modernization}_{jt} + \alpha_4 \text{Cultural distance}_j + \alpha_5 ln\text{Political distance}_{jt} + \alpha_6 ln\text{Number of countries}_{jt} + \alpha_7 \text{Store format type}_i + \delta_h + \eta_i + \gamma_t + \theta_j + \text{u}_{ihjt}$$

where P_{ijt} is performance of retailer i in country j at time t, SF diversification$_{ijt}$ is the store format diversification of retailer i in host country j at time t, Customer orientation$_{ijt}$ is the degree of retailer i's customer orientation in host country j at time t, and Host country retail modernization$_{jt}$ is the degree of host country j's retail modernization at time t. Noted control variables are indicated as Cultural distance$_j$, Political distance$_{jt}$, Number of countries$_{jt}$, Store format type$_i$, δ_h for home country fixed effect, η_i for retailer fixed effect, γ_t for time fixed effect, θ_j for host country fixed effect, and u$_{ihjt}$ for the error term.

Finally, the model accounts for potential endogeneity due to the unobserved correlation between foreign retailer performance and store format diversification. The endogeneity issue is mitigated in our model per controls for all possible retailer-, home country-, and host country- specific effects as well as business cycle effects. Thus, our econometric specification controls for much of the unobserved correlation between foreign retailer performance and store format diversification.

Analysis and Results

Table 2 shows the descriptive statistics and correlation matrix of the variables. The correlation between the independent variables is generally low to moderate, except for those between the number of countries and store format diversification (r = .50) and between cultural distance and host country collectivism (r = -.48), respectively. However, the variance inflation factors of our models were all below 3, which is much lower than the threshold value of 10, indicating that our results do not suffer from multicollinearity (Hair et al., 2009).

The results of the study are reported in Table 3. First, we found a negative relationship between store format diversification and foreign retailer performance (β = -.868, p < .05). That is, as foreign retailers increase the diversity of their store format portfolio, their performance is likely to decline, thus supporting H1. Our second interest is to investigate how customer orientation

influences foreign retailer performance. As predicted, our second hypothesis is given solid support based on the finding that foreign retailer performance is positively related to customer orientation (β = .202, p < .001).

Beyond testing the impact of store format diversification and customer orientation on foreign retail performance, we performed a series of interaction analyses to investigate whether the aforementioned relationships depend on several host country characteristics. First, regression model 2 in Table 3 shows that host country retail modernization mitigates the negative impact of store format diversification on foreign retailer performance (β = .106, p < .01). This implies that the impact of store format diversification on foreign retailer performance varies depending on the level of host country retail modernization; as host country retail modernization increases, the negative impact of store format diversification on foreign retailer performance is reversed (i.e., becomes positive), which means that H3 is supported. However, as shown in model 2, we do not find a significant interaction between customer orientation and host country retail modernization. H4 is thus not supported.

Next, we tested for the interaction between host country collectivism, store format diversification, and customer orientation, respectively. While the interaction between store format diversification and host country collectivism is not statistically significant (H5 is thus not supported), our findings provide support for H6 (β = .078, p < .05). This means that the impact of customer orientation on foreign retailer performance varies with the level of host country collectivism, with customer orientation enhancing foreign retailer performance to a larger extent at high levels of host country collectivism.

Lastly, we examine the interaction between host country uncertainty avoidance, store format diversification, and customer orientation, respectively. Our results show that host country uncertainty avoidance heightens the negative impact of store format diversification on foreign retailer performance (β = -.525, p < .01). This finding is in line with H7, which stated that the negative relationship between store format diversification and foreign retailer performance is worsened when retailers operate in more risk-averse host countries (Hofstede et al., 2010). Similarly, a solid support is extended to H8. Specifically, we show that host country uncertainty avoidance strengthens the performance benefit of customer orientation (β = .060, p < .001). This finding implies that the impact of customer orientation on foreign retailer performance varies with the level of host country uncertainty avoidance. In particular, customer orientation enhances foreign retailer performance to a larger extent when there are high levels of host country uncertainty avoidance.

Table 3. Results

Variables	Model 1 Direct Effects	Model 2 Moderation effects
Store format diversification	-.868*	.758
	(.344)	(1.484)
Customer orientation	.202***	-.486*
	(.015)	(.196)
Retail modernization	.020*	.022
	(.009)	(.056)
Cultural distance	.069	-.026
	(.085)	(.081)
Political distance	.111	.086
	(.121)	(.119)
Number of countries	.138	.133
	(.133)	(.131)
Store format type	.149***	.150***
	(.007)	(.007)
Host country collectivism		.399
		(.567)
Host country UAI		.418
		(.291)
Store format diversification*Host country retail modernization		.106**
		(.037)
Customer orientation *Host country retail modernization		-.005
		(.006)
Customer orientation*Host country collectivism		.078*
		(.036)
Store format diversification*Host country collectivism		.083
		(.263)
Store format diversification*Host country UAI		-.525**
		(.160)
Customer orientation*Host country UAI		.060***
		(.018)
Constant	11.076***	7.101
	(1.662)	(3.796)
Observations	2,162	2,162

Dependent variable: Retailer performance (Natural log of sales per store). Robust standard errors in parentheses. *** p<.001, ** p<.01, * p<.05. Host country UAI (host country uncertainty avoidance). The retailer, year, home and host country fixed effects are not shown to increase readability. The model is estimated using a generalized linear model to account for the fact that the dependent variable is not normally distributed.

Discussion

Using data on the activities of 24 retailers operating across three continents over the period 2001-2015, we developed an empirical model that sheds light on whether and how store format diversification and customer orientation influence foreign retailer performance. We also examined whether the influences of these two variables are moderated by retail modernization as well as host country cultural

values. Below we discuss the theoretical and managerial implications of our research

Theoretical Implications

As retailers move to diversify their country markets, they must also diversify their store format portfolios in ways that effectively address varied preferences of multiple customer segments within each host country. Accounting for various controls related to retail management structure, experience, and quality, as well as home and host country factors and business cycle effects, the study's model yielded support for hypotheses stating that foreign retailer performance is influenced negatively by store format diversification and positively by customer orientation. This finding is particularly important, as it meaningfully serves the call for much-needed academic research extending our knowledge of foreign retailer performance and potential international retail failures (Burt et al., 2003, Dimitrova et al., 2018).

The result for customer orientation is largely consistent with existing knowledge that points to stronger, sustained market performances by customer-oriented companies (Jaworski & Kohli, 1993; Narver & Slater, 1990). The question that remains, however, is what are the antecedents of customer orientation for international retailers. For example, one could argue that a retailer's capabilities, resources, and international experience (or lack thereof), as well as the competitive intensity and degree of consumer demand volatility in the host country may facilitate or inhibit the implementation of a customer-oriented strategy. In addition, our study helps extend scholarly research that has examined the impact of firm-level and host market characteristics on the foreign retailer performance. In particular, we answer Chan et al.'s (2011) call to use a better retail management capability measure, which accounts, not only for the number, but also the breadth and balance of store formats operated by international retailers in different foreign markets.

As detailed in our results section, host country retail modernization reverses the relationship between store format diversification and foreign retailer performance from negative to positive. This finding shows that the operations of international retailers are affected by the local retail structure and this variable should be factored in when studying retail internationalization going forward. In addition, the fact that international retailers seem to benefit from a more diverse and balanced store format portfolio in countries characterized by a more modern retail structure implies that different competitive forces might be at play in such markets, thus calling for more focused studies explicating the link between competitive dynamics and the strategic actions of international retailers as well as the subsequent outcomes of this relationship.

Next, we find that host country collectivism and uncertainty avoidance reinforce the positive influence of customer orientation on foreign retailer performance. This evidence underscores, not only the importance of customer-focused activities, but also the possibilities for well-known foreign retailers or culturally coordinated store formats to resonate within certain intra-country settings. The five cultural scapes/flows (e.g., ethno-, finance-, ideo-) identified by Appadurai may provide additional insight on how retailers can understand and address cultural variations that connect populations of consumers across countries and within them (Appadurai, 1990).

We also show that host country uncertainty avoidance enhances both the negative influence of store format diversification and the positive influence of customer orientation on foreign retailer performance. Although there has been much debate over the issue of standardization vs. adaptation of foreign marketing strategy and particularly its performance implications (Cavusgil & Zou, 1994; Douglas & Craig, 2011; Douglas & Wind, 1987; Katsikeas et al., 2006; Levitt, 1983), our study points to the fact that national cultural values play an important role in international retail strategy formulation and performance, and thus, should not be overlooked. This means that future research should focus on further examining the interaction between host market cultural values and international retailers' strategic decisions. Moreover, since retail institutions are embedded in the environments in which they operate (Goldman & Hino, 2005; Griffith, 1998; Samiee, 1993), it would be worth investigating whether the degree of cultural and political distance between the home and host country affect the relationship between the retail strategy employed in a given foreign market and a retailer's performance in this market.

Finally, our study may be limited by its selection of only 24 retailers originating from mostly economically advanced countries. Additionally, the controls do not account exhaustively for all types of distance (e.g., geographic) between the foreign retailers' home country and host countries. Looking forward, this study could be enhanced by exploring whether and to what extent strategic groups of retailers (e.g., discount grocery stores) tend to perform better or worse as a result of adopting or avoiding particular internationalization strategies. For example, Colla (2003) reports that German hard discount grocers and French soft discount retailers exhibit winning tendencies in European markets.

Managerial Implications

Retailers create significant value to consumers worldwide by providing shopping experiences that offer exposure to diverse assortments of merchandise. Of course, consumers vary globally, regionally, and even domestically in their demands for what retailers should present in their market offerings. While retailers may be experts in meeting consumer demands, they still face challenges when trying to replicate and/or repeat their performances as foreign players in different host countries (Jonsson & Foss, 2011). This study's findings offer some guidance to foreign retailers attempting to enhance their trajectory by utilizing some degree of innovation to exploit market opportunities, extend competitive advantages, or mitigate growth risks. Whether embarking on a path that would sustain (reverse) favourable (unfavourable) performance beyond familiar country borders, our study's results point to a dual focus on (a) implementing customer orientation and (b) selecting countries with greater retail modernization in order to achieve favourable market performance. This focus should be helpful to retailers of all types and degrees of experience. Retailers are thus advised to evaluate the scale, scope, and viability of the retail structure within a given country as they decide whether, and perhaps how, to introduce particular store formats under their banner or brand in a particular foreign market.

Our results further show that international retailers might in fact benefit from paying close attention to host market cultural values and adjusting their operations accordingly in order to enjoy superior performance. Specifically, societies exhibiting greater uncertainty avoidance may signal some degree of tentativeness about patronizing lesser-known foreign retailers or shopping in innovative store formats from retailers of any origin. Indeed, such signalling could suggest that foreign retailers should look elsewhere for success, unless they can convey clear, consistent, and tangible evidence of customer orientation. In collectivistic societies, however, customer orientation seems to be particularly beneficial. International retailers are thus encouraged to emphasize their dedication to delivering superior customer service in an effort to reassure local consumers that they will be rewarded by patronizing a given retailer's stores.

It also seems that a customer-oriented strategy is imperative for improved foreign retailer performance, regardless of the nature of the retail structure in the host country. This means that international retailers should exploit their resources and make the required investments in developing the capabilities and possibly additional resources needed for the effective implementation of a customer-oriented strategy in foreign markets. Finally, international retailers are advised to diversify their store format portfolio when they operate in countries characterized by a high degree of retail modernization. Given that competition is presumably more intense in such markets, retailers might have to offer a greater and more balanced store format variety in order to counteract the competitive actions of local firms and thus provide additional value to local consumers.

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