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# Retailers' strategic responses to institutional pressures:

The case of Finnish multinational retailers in Russia

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<p><b>Julkaisun nimike</b> Institutionaalisten paineiden vaikutus vähittäiskaupan alan strategisiin valintoihin. Tapaustutkimuksia suomalaisista monikansallisista vähittäiskaupan alan yrityksistä Venäjällä.</p>		
<p><b>Tiivistelmä</b> Yksi merkittävimmistä kehityspiirteistä nykypäivän liiketoimintaympäristössä on vähittäiskaupan kansainvälistymisen kasvu. Institutionaalisen ympäristön paineet vaikuttavat vähittäiskaupan käytänteisiin ja rakenteisiin. Tästä huolimatta tiedetään varsin vähän, millaisia strategisia valintoja kansainväliset vähittäiskaupat tekevät kehittyvien markkinoiden uudessa institutionaalisessa toimintaympäristössä ja kuinka nämä valinnat vaikuttavat alan yritysten suoriutumiseen. Tutkimuksen tarkoituksena on tutkia vähittäiskaupan strategisia valintoja institutionaalisen ympäristön lainsäädännöllisten, normatiivisten sekä kognitiivisten paineiden alla kehittyvillä markkinoilla. Tutkimuksen teoreettinen tausta pohjautuu institutionaaliseen teoriaan sekä kansainvälisen vähittäiskaupan kirjallisuuteen. Tutkimuksessa sovelletaan kvalitatiivista tapaustutkimusta, jossa tarkastellaan kolmen suomalaisen vähittäiskaupan strategioita markkinoille tulon jälkeen Venäjän markkinoilla, joilla historia, kulttuuri ja vähittäiskaupan normit ovat varsin erilaiset Suomeen verrattuna. Tämän tutkimuksen keskeiset havainnot osoittavat, että suomalaisten vähittäiskauppojen tytäryritykset käyttävät ennakoivasti neljää erilaista strategista tapaa vastatakseen institutionaalisen ympäristön lainsäädännöllisiin, normatiivisiin ja kognitiivisiin paineisiin. Näitä ovat a) toimintaympäristön olosuhteiden noudattaminen, b) toimintaympäristön valinta, c) toimintaympäristön luominen, ja d) yhteistyö toimintaympäristön kanssa. Yhteistyö toimintaympäristön kanssa on uusi strateginen valinta, joka nousi esiin tutkimuksen haastatteluaineistosta. Tutkimustulokset osoittavat myös, että suomalaisten vähittäiskauppojen tytäryritysten suoriutumiseen Venäjällä vaikuttaa kohdemaan institutionaalisen ympäristön lisäksi myös organisaation sisäiset tekijät sekä strategiset valinnat. Tutkimustulokset lisäävät sekä tutkijoiden että vähittäiskaupan johtajien ymmärrystä siitä, miten institutionaaliset tekijät ja yrityksen sisäiset tekijät liittyvät strategiaan valintoihin ja suoriutumiseen kansainvälisillä markkinoilla.</p>		
<p><b>Asiasanat</b> Institutionaalinen teoria, monikansallinen vähittäiskauppa, strategiset valinnat, institutionaaliset paineet, Venäjä.</p>		



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<b>Abstract</b> One of the major significant developments in today's business environment appears to be increase in the internationalisation of retailing. Retailing practices and structures are affected by pressures from the institutional environment. However, little is known about the strategic response choices for international retailers to respond to pressures they face from new institutional environment in an emerging market, and the effect of such responses on performance.  The purpose of this study is to examine retailers' strategic responses to regulatory, normative, and cognitive pressures from institutional environment in an emerging market. Institutional theory and the literature on retail internationalisation are applied to form theoretical background for the study. The study applied qualitative case study to examine the strategies of three Finnish retailers in post-market entry stage in emerging market of Russia, a country whose history, culture, and norms of retailing are quite different from Finland.  The key findings of this study suggests that subsidiaries of Finnish retailers in Russia proactively employ four different strategic response choices namely: (a) <i>compliance</i> to the environment; (b) <i>selection</i> of the environment; (c) <i>creation</i> of the environment; and (d) <i>cooperation</i> with the environment to respond to three types of institutional pressures- regulatory, normative, and cognitive. <i>Cooperation</i> with the environment is a new strategic response choice identified by the author as emerging from the interview data. The results also indicate that performance of subsidiaries of Finnish retailers in Russia depends not only on host institutional factors, but also on internal organisational factors and strategic response choices. This study offers both academics and retail managers a better understanding of how host institutional factors and firm internal factors relate to appropriate strategic response choices and performance in the foreign market.		
<b>Keywords</b> Institutional theory, multinational retailer, strategic responses, institutional pressures, Russia		



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*“Your vision will give you courage, confidence and boldness to go on, no matter what anyone says, no matter what happens and no matter your circumstance” (Matthew 15:22-28).*

*“If you handle your hard times with care, they will soon become good times” (Psalm 30:5).*

Now when I sat down and reflected on the entire journey of my life and the doctoral dissertation, it dawned on me that with God, all things are possible for he who believes. I can confidently confess that I am what God says I am, I have what God says I have, and I can do what God says I can do. Most of all, I can do all things in Christ Jesus who strengthen me.

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Finland



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## Abbreviations

BRICS	Brazil, Russia, India, China and South Africa
CAAR	Cumulative average abnormal returns
CAGR	Accounting for annual growth rate
CAR	Cumulative abnormal returns
CEE	Central and Eastern Europe
CEO	Chief executive officer
EDI	Electronic data interchange
EDLP	Every-day-lower-price
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
IMF	International Monetary Fund
IRPM	International retail portfolio management
IT	Information technology
JV	Joint venture
JVs	Joint ventures
LSRSL	Large scale retail store law
PLCs	Public listed companies
RI	Retail internationalisation
ROA	Return on assets
ROI	Return on investment
ROS	Return on sales
RPM	Retail portfolio management
SIRE	Strategic international retail expansion
TNCs	Transnational corporations
UK	United Kingdom
USA	United States of America
US	United States
WOS	Wholly owned subsidiary
WTO	World Trade Organisation

# 1 INTRODUCTION

## 1.1 Background of the study

Retailing is increasingly becoming a global industry and many of the world's well-known retailers already derive a large part of their sales from international operations. The late 1990s witnessed a powerful wave of retail internationalisation when global retailers from Europe and the USA entered new growth markets, especially in developing/emerging economies (CBRE 2011; Coe & Hess 2005; Reardon, Henson & Berdegué 2007; Deloitte 20012). For instance, Wal-Mart recently accelerated its expansion in Brazil and China and has been moving closer to opening stores in India (Cao & Pederzoli 2013). The average Top 250 European retailer had a presence in 14.9 countries in 2010, up from 11.1 countries in 2007, and over 40 percent of their total sales were from foreign operation in 2010, up from 35.1 percent in 2009 (Deloitte 2012). French and German retailers are the most international in scope (Deloitte 2012). The estimated global retail sale for the Top 250 retailers in 2010 was US\$ 3.94 trillion (Deloitte 2012).

While showing an increasing interest in international expansion, many retailers consider the establishment of store networks in foreign markets a troublesome issue because, retailers' expansion to foreign markets leads to the transfer of retail management technology (Alexander 1995) or the establishment of international trading relationships across regulatory, economic, social, and cultural boundaries (Alexander 1995; Deligonul, Elg, Cavusgil & Ghauri 2013; Elg, Ghauri & Tarnovskaya 2008; Evans, Brdson, Byrom & Medway 2008; Ghauri, Tarnovskaya & Elg 2008; Hutchinson, Quinn, Alexander & Doherty 2009). For example, when Western multinational retailers start operating in emerging markets of East Asia, South America and Central and Eastern European transition economies, the environment is very dissimilar to that in their home country (Ghauri & Holstius 1996). Likewise, international retailers that expand to emerging markets such as China have experience significant differences in the institutional environment (Cao & Pederzoli 2013; Kshetri 2013).

The literature on retail internationalisation has identified dissimilarities in the economic environment, including infrastructure and level of technology, in the political, cognitive, and sociological elements such as laws, rules, norms, cultural beliefs, and habits shared by relevant members as presenting opportunities as well obstacles to successful retail expansion (e.g. Aoyama 2007; Bianchi & Arnold 2004; Chan, Finnegan & Sternquist 2011; Christopherson 2007; Chuang, Donegan, Ganon & Wei 2011; Evans et al. 2008; Huang & Sternquist 2007; Hutchison

et al. 2009). For example, in their conceptual model on retailing (Treadgold & Mavondo 2000; Vida & Fairhurst 1998) implied that retail internationalisation is a complex task, which concerns a number of areas and decisions regarding for example, political, legal, social, economics, and cultural issues as well as internal organisational factors.

Studies have shown that several retailers successful in their home countries have sometimes failed in new host environments (e.g. Aoyama 2007; Bianchi & Arnold 2004; Burt, Mellahi, Jackson & Sparks 2002; Burt, Dawson & Sparks 2003; Christopherson 2007). For instance, Wal-Mart and Carrefour has failed in South Korea and Japan (Aoyama 2007), and Wal-Mart's failure in Germany (Christopherson 2007). Another example of unsuccessful internationalization attempt is Home Depot's recent failure in the Chilean market (Bianchi & Arnold 2004; Bianchi & Mena 2006). Research on retail internationalisation has suggested that retailer practices and structures are affected by pressures from their institutional environment (Arnold, Handelman & Tigert 1996; Bianchi & Arnold 2004; Handelman & Arnold 1999; Huang & Sternquist 2007).

To add to the challenges presented to the international retailer is the fact that they are confronted with pressures from multiple constituents in the host institutional environments to which they must respond in order to establish their legitimacy, or right to exist, in a given market (Ahlstrom & Bruton 2001; Stillman 1974). Local domestic retailers are adapted to local institutions, and their organisational structures and cultures and norms of retailing and have to be consistent with the isomorphic pressures in their local environment. These firms have developed a number of legitimacy-building strategies to help them cope with the challenging environment. Foreign retailers have to accommodate these same pressures as well in order to ensure their survival and success in the new host context (Dowling & Pfeffer 1975; Hannan & Freeman 1977; Meyer & Rowan 1977). For example, international retailers need acceptance from parties like the state, professional and trade associations, accreditation agencies, suppliers, customers, and critics (e.g., consumer activists, news media), who are all seen as especially important sources of support and legitimacy (e.g. Deephouse 1996; Deligonul et al. 2013; Elg et al. 2008, Glynn & Lounsbury 2005; Scott 2001).

Researchers (e.g. Bianchi and Arnold 2004; Deligonul et al. 2013; Hadjikhani and Ghauri 2001) have noted that acquiring legitimacy is very important for international retailers when operating in different socio-economic environments. The study by Deligonul et al. (2013) and Hadjikhani and Ghauri (2001) illustrate how international retailers can achieve different types of legitimacy that supports the firm's strategies in different markets. At least since Meyer and Rowan (1977:



353), institutionalists have argued that legitimacy enhances organizational survival and supportive evidence of this assertion abounds (e.g. Deephouse 1996; Kostova & Zaheer 1999; Zimmerman & Zeitz 2002). Bianchi and Arnold (2004) noted that the American retailer, Home Depot failed in the Chilean market because it failed to gain legitimacy from host social actors. However, beyond legitimacy and survival is growth, success or failure (performance) (e.g. Certo & Hodge 2007; Dacin, Oliver & Roy 2007; Zimmerman & Zeitz 2002). Differences in the institutional environment therefore present significant challenge to international retailers (e.g. Cao & Pederzoli 2013; Hutchison 2009; Jansson, Johanson & Ramström 2007). For instance, researchers in international retailing (e.g. Aoyama 2007; Bianchi & Arnold 2004; Burt et al. 2002; Bianchi & Ostale 2006; Christopherson 2007) acknowledged that the foreign environment may have an important impact on internationalisation success or failure.

## 1.2 Positioning the study and identifying research gap

The theoretical constructs presented in the literature review for this study play twofold role in this study. First, they serve as conceptual tools to be applied in addressing the research question of the study, thereby contributing to the advancement of an institutional perspective of business strategy in transition economies (Karhunen 2007). Second, the application of these constructs to the unique empirical context of emerging economies offers an opportunity to contribute to their further improvement. This dissertation can first and foremost be positioned as one contributing to the field of international retailing and international business. This study extends current theories by linking the institutional environment (external) and organisational characteristics (internal) with retailer strategic response choices and legitimacy and performance. Although this study discusses retailer legitimacy and performance, the main focus of the study is the influence of the institutional environment on the strategic response choices for the international retailer to respond to regulatory, normative and cognitive institutional pressures from the institutional environment of an emerging market. Early research on retail internationalisation, marketing, and international business laid the foundation for the study.

This study aims at depicting those processes by which the institutional environment at multiple levels (regulative, normative, cognitive) is reflected in the field-level institutional context thereby in organisational behaviour by illustrating both the nature of institutional pressures and their outcomes in organisational structures and practices and performance of subsidiaries of Finnish multinational retailers in Russia.

The approach taken in this study to explain retailers' strategic responses to institutional environment in post-entry in Russia's retail sector as organisational field answers also the recent critique of the field-level studies (Davis, Desai & Francis, 2000; Guillen 2002; Haveman 1993; Henisz & Delios 2001; Huang & Sternquist 2007; Lu 2002; Yiu & Makino 2002) concentrating on outcomes of institutional processes (i.e. homogeneity in organisational structures and practices) rather than seeking to explain these processes. This study supports the view that in the context of international retailing, there are many constituents with conflicting interest that needs to be addressed by the retailer, hence, blindly conforming to all institutional pressures is unlikely (e.g. DiMaggio 1991; Goodstein 1994; Francis et al. 2009; Oliver 1991).

Even though institutional theory is grounded in the concept of isomorphism, which assumes increasing field-level homogeneity, this study aims to examine how subsidiaries of Finnish multinational retailers facing the same institutional pressures in the context of retailing in Russia respond to these pressures. This study supports the view that institutional pressures towards homogeneity are not irresistible, thus organisations can proactively respond to them whenever they occur. Furthermore, it assumes that due to field and organisational characteristics, firms' responses also vary in response to institutional pressures. In addition, the constituents or social actors in the organisational field (i.e. state, consumers, suppliers, and employees) bring an additional dimension to the analysis of variety in strategic responses.

*The review of the literature on retail internationalisation revealed conceptual, theoretical and empirical gap.* Existing theoretical conceptualisations of retail internationalisation by authors can be based on three classifications: First, authors develop a retail-specific classification based on observations of idiosyncratic behaviour of existing international retailers and knowledge of industry. Second, authors draw on theories in the domain of international business, management and marketing. Third, authors choose to integrate and apply a series of established international business paradigms to retail internationalisation.

Retail specific frameworks and classifications that have developed in the past decade have been especially valuable in studies examining motivational and strategic aspects on internationalisation. These include the framework by Salmon and Tordjman (1989) and Treadgold (1990). For instance, Salmon and Tordjman (1989) discusses retail internationalisation in terms of whether retailers use a global vs. multinational focus. Treadgold (1990) identifies three typical stages of the RI process: reluctance, caution and ambition. Recognised dichotomies of motivational drivers to RI in the literature include push vs. pull motivational factors and reactive vs.

proactive stance of international retailers (Alexander, 1990; Williams 1991). Also focusing on market choice selection factors is the framework by Myers and Alexander (1997) and continuum of a retailer's ethnocentric vs. geocentric stance and global vs. local relevance of its retail concept.

The second line of existing retail internationalisation conceptualisation draws on established international business paradigms. One international business management theory which has received a wider acceptance in retail internationalisation research is Dunning's (1981, 1988) eclectic paradigm. For example, this theoretical basis is applied to retail internationalization at a conceptual level by Dawson (1994), Pellegrini (1991), Sternquist (1997), Park and Sternquist (2008), and at the empirical level by Sternquist (1998), and Chen and Sternquist (1995). Also drawing from the broader firm internationalisation literature, some scholars apply the "stages models" from the export marketing area to explain the retail internationalisation phenomenon (e.g. Whitehead 1992; Williams 1991; 1992). The stages theories view the firm internationalisation as an incremental process whereby stages are delineated based on various organisational characteristics and strategic decisions of management. Recently, researchers also draw on institutional theory (DiMaggio & Powell 1983; Meyer & Rowan 1983; Scott 1995, 2001) to explain the retail internationalisation process. For instance, the institutional perspective is applied at conceptual level by Huang and Sterguist (2007) and at empirical level by Bianchi and Arnold (2004), Cao and Pederzoli (2013) and Deligonul et al. (2013).

The third group of existing conceptual approaches to retail internationalisation includes contributions with the goal of integrating a series of international business theories and adapting them to the retailing industry. For instance, Vida and Fairhurst (1998), Sternquist (1997), Alexander and Myers (2000), Evans, Treadgold and Mavondo (2000) has sought to provide a conceptual framework from which to understand the underlying process of retail internationalisation drawing on the wider management literature focused upon internationalisation and applying it to the retail industry. Sternquist (1997) designed a Strategic International Retail Expansion (SIRE) model, which is mainly based on Dunning's (1981, 1988) eclectic paradigm and Salmon and Tordjman (1989) together with other important themes in the retail literature to provide a holistic explanation of retail internationalisation. By drawing on various theories and concepts in combination and by finding the links between them Sternquist (1997) tries to offer a more comprehensive framework than has been available before. The framework by Evans et al. (2000) seeks to explain variations in the performance of international retail operations. Based on a review of both international retailing and interna-

tional business literature a number of key factors are identified and incorporated in the framework.

The model by Vida and Fairhurst (1998) is grounded in a behavioural approach to the internationalisation process. The three major research streams from international marketing and management literatures which form the theoretical basis for this model include: (1) the attitudinal approach with Perlmutter's typology of a firm's and management's attitudes towards foreign markets and marketing systems (e.g. Perlmutter 1969; Wind, Douglas & Perlmutter 1973); (2) the Nordic model of the internationalisation process (e.g. Johansson and Vahlne 1977; 1990) which is based on the premise that the general and experiential market knowledge and resource commitment of firms affect commitment decisions and current business activities; and (3) the export stages models which view internationalisation as a step-by-step process (e.g. Cavusgil 1980; 1984; Wiedersheim-Paul, Olson & Welch 1978). Vida and Fairhurst (1998) model is concerned with the antecedents, process and outcomes of international activity. The model suggests that the firm and management characteristics are the two internal driving forces behind the international retailing process and that these forces are influenced by the external environment.

Although the contribution of these frameworks to the retailing literature is notable, most of this work addresses the drivers and mechanisms of the internationalisation process. In other words, these frameworks focus much on pre-internationalisation issues such as motivation to internationalise, when to internationalise, managerial commitment, choice of markets, and market entry strategy. A major limitation of RI conceptualisation based on the eclectic model is that it does not account for pressures and difficulties that affect ownership, location, and internalisation advantages in a new market. The contextual uncertainty in a foreign market entails bounded rationality of decision makers and arises from changes in institutional conditions such as political and economic stability, legal ground rules, and cultural and social relations embedded in national environments. Similarly, conceptualisation based the stage model does not address the role of time or firm specific competitive advantages, but instead describes a sequential process of internationalisation.

Furthermore, the model by Sternquist (1997) does not take into account the measures of performance, or drivers for international success or failure for retailers. In addition, this model does not consider mix forms of international expansion, such as multinational expansion in some markets, and global expansion in others. Likewise, although richer in dimensionality than the Sternquist (1997)'s model, the Alexander and Myers (2000)'s framework does not focus on any element on firm expansion process that leads to legitimacy or performance. Similar-

ly, although the framework by Vida and Fairhurst (1998)'s addresses firm's performance of international retail expansion, it focuses on entry mode and initial market selection and thus incapable of explaining the factors in the external environment, and the role of firms and decision-makers characteristics in influencing expansion process at post-market entry. The framework by Evans et al. (2000) addresses firms' performance of international retail operations and it focuses particularly on firms' entry strategy and adaptation versus standardisation of the retail offer (marketing-mix strategy). However, this framework does not account for variations in the organisational field and the role of social actors in legitimating the retail offer and the impact on performance. Finally, although, the framework by Huang and Sternquist (2007) provides deeper understanding of the influence of institutional environment on retail international expansion, it focuses on market entry only, thus, does not consider the role of firm internal factors, or the role of interest and agency of firms in the internationalisation process. *Conceptually, the literature review on retail internationalisation suggests that previous theoretical models were inadequate in addressing the complexities involved in the retail internationalisation process in post-entry. Previous conceptual frameworks therefore fall short of providing a deeper understanding on post-internationalisation issues such as how retailers respond to institutional pressures or how to succeed when operating in foreign countries.*

Empirically and theoretically, often studies based on institutional perspective view the environment-organisational relationship as unidirectional and assumes that legitimacy is achieved primarily through isomorphism where organisations become similar to other organisations in their organizational field (e.g. Davis, Desai & Francis 2000; Guillen 2002; Haveman 1993; Henisz & Delios 2001). In other words studies that have applied institutional theory in international business research have devoted limited attention to the role of interest and agency and how firms can proactively response to institutional pressures from a host environment. Few studies (e.g. Cao & Pederzoli 2013; Deligonul et al. 2013; Huang & Sternquist 2007) have applied institutional theory (Scott 1995, 2001) in the context of international retailing to examine the role of interest and agency in responding to pressures from the institutional environment.

In addition, although some researcher (e.g. Arnold et al. 2001; Bianchi & Arnold 2004; Cao & Pederzoli 2013; Deligonul et al 2013; Huang & Sternquist 2007) have acknowledged the importance of examining the impact of the institutional environment on the internationalisation of retailers, more empirical studies based on multiple case studies are needed because the research findings of Arnold et al. (2001), Bianchi and Arnold (2004) and Deligonul et al. (2013) were examined by the case study of only one company, and Huang and Sternquist's (2007) work is

conceptual which focused purely on market entry strategy influenced by the institutional environment. *Thus far, theoretical and empirical research in retail internationalisation aimed at increased understanding of the institutional environment devoted less attention to field-level institutional pressures as interplay of firm characteristics and strategic responses of international retailers has left some gaps to be filled. It is also important to understand how the interplay of the institutional environment and organisational factors influence the uniqueness of international retailers' responses to pressures from the institutional environment in an emerging market (Huang & Sternquist 2007).*

In conclusion, the literature on international retailing requires a deeper understanding of how the foreign environment affects the internationalisation process and which elements are most relevant for the performance of international retailers. Retail scholars insist that more theoretical work is required especially on post-internationalisation aspects such as success (Alexander & Myers 2000; Bianchi & Arnold 2004). In addition, Dacin, Oliver & Roy (2007: 182) called for further research to examine more extensively the factors that contribute to firm performance in the context of multiple and potentially conflicting demands from customers, suppliers, parent companies, local community, host governments investors, corporate insiders, and public interest groups. International retailers are embedded in both their own internal institutional environment consisting of structures, standards, and practices established in the past (Meyer & Rowan 1977), and in an external institutional environment consisting of other organizations such as suppliers, customers, competitors, and regulators (Coe & Wrigley 2007). In addition, international retailers interact with and are influenced by different elements in the institutional environment which can offer contesting sources for legitimization. Thus, international retailers must not only meet technical, or task, constraints, but must also respond to a variety of intuitional pressures and demands embodied in regulations, norms, laws, and social expectations (Meyer & Rowan 1977). It is therefore a crucial issue for the international retailer how to respond to the challenges from the institutional environment in a host country (Cao & Pederzoli 2013).

In order to address the identified conceptual, theoretical and empirical gap, three theoretical frameworks are considered: Scott (1995, 2001) three pillars of institutions- regulatory, normative, and cognitive; Vida and Fairhurst's (1998) framework of organisational characteristics and Oliver's (1991) five typology of strategic responses to institutional processes. This study is of the view that firms' characteristics influence the ability of international retailers to respond to institutional pressures, as well as gain legitimacy from target constituents in a new host environment (e.g. Dacin, Oliver & Roy 2007). In addition, this study supports the

view that decision-makers' (managers) characteristics will affect how international retailers perceive pressures from the institutional environment, and how they decide to respond to them (Evans et al. 2000).

### 1.3 The purpose, research question, and objective of the study

The purpose of this dissertation is to analyse retailers' strategic responses to pressures from the institutional environment in an emerging market in post-entry. This leads to the research questions of the study which are:

1. *What are the strategic choices for the multinational retailer to respond to regulatory, normative, and cognitive pressures from institutional environment in an emerging market?*
2. *How and why do firms' characteristics and decision-makers' characteristics influence retailers' strategic responses to institutional pressures and performance?*
3. *What are the factors in the context of international retailing that influence the strategic response choices and performance of multinational retailers in Russia's market?*

The purpose of the present study as stated above can be further broken down to the following theoretical and empirical objectives. The first objective is to explain the factors in the institutional environment that constraints the operations of subsidiaries of Finnish multinational retailers in Russia's market. The second objective is to explain the strategies international retailers pursue in response to institutional pressures in Russia's market. These two objectives are to be achieved by explaining the appropriateness of the conceptual model for the empirical study based on previous literature and identifying causal mechanisms and emerging themes.

The third objective is to examine how and why the factors identified influence post-entry expansion process and performance of subsidiaries of Finnish multinational retailers in Russia. This objective is to be achieved by data analysis and demonstrated in the results. The fourth objective is to draw cross-case conclusions to develop a suitable model to explain the factors that influence the expansion process and performance of international retailers. This is expected to provide a better understanding of the expansion process at the post-entry stage of retail in-

ternationalisation. This objective will be achieved by analysing and presenting the results of the study.

## 1.4 The international retailer as an object of study

This study uses subsidiaries of Finnish retailers operating in Russia as an empirical case of an organizational field. The selection of the concrete cases to be examined was guided both by the theoretical approach and empirical preferences. In theoretical terms, multinational retailers have characteristics which make them an interesting object for investigation. First, in structural terms, multinational retailers must have physical presence in foreign countries, in other words, they have to invest in store network and distribution and logistics infrastructure, with all the associated vulnerabilities that it brings (Wrigley & Currah 2006). Second, there is a considerable transfer of management expertise between different domestic retail systems, through international searches for new ideas and technologies (Alexander 1997). Potentially, a wide range of types of expertise may be transferred, including store formats, design concepts (e.g., displays and internal layouts), management tools (e.g., productivity measures), retail technologies (e.g., electronic point-of-sale (EPOS) systems), and customer service initiatives (e.g., frequent-shopper programmes).

Third, multinational retailers have direct contact with customers in the host countries, which make international retailing highly culture specific (Vida, Reardon & Fairhurst 2000). As Wrigley and Currah (2006) noted, consumption is clearly a socio-cultural process as much as it is an economic interaction; retailers need to be responsive to local variations (both national and intra-national) in cultural tastes, norms and preferences, which all add to the complex nature of international retailing. From the viewpoint of international business research in emerging economies, the reason for selecting the retail sector as the object of investigation are many. First, the rapid increase in international retail expansion into emerging economies illustrates the potential growth in this sector. Nevertheless, researches applying institutional theory to examine how international retailers respond to the institutional environment in post-market entry in Russia have received scant attention. Second, institutional theory has been suggested by many researchers (e.g. Huang & Sternquist 2007) as an appropriate theory for examining international retail expansion in emerging economies. Finally, research on how multinational retailers from developed market economies respond strategically to institutional environment in post-market entry in emerging economies have received little attention.



## 1.5 Theoretical positioning of the study

For this study which focuses on the influence of the institutional environment on the strategic response choices for the international retailers to respond to pressures from the institutional environment in post-entry stage in Russia, three main frameworks are selected to help set up the theoretical positioning of the study. It must be recognised that retail internationalisation is geographically tied, thus multinational retailers have direct contact with customers in the host countries, which makes international retailing highly culture specific (e.g. O'Grady & Lane 1997; Vida, Reardon & Fairhurst 2000). Consumption is clearly a socio-cultural process as much as it is an economic interaction; retailers need to be responsive to local variations (both national and intra-national) in cultural tastes, norms and preferences, which all add to the complex nature of international retailing (Wrigley & Currah 2006). There have been recent studies that considered the integration of retail internationalisation studies and developed conceptual frameworks for understanding the retail internationalisation process, as well as drawing on the wider literature focusing on internationalisation (e.g. Alexander & Meyers 2000; Evans et al. 2000; Sternquist 1997; Vida & Fairhurst 1998).

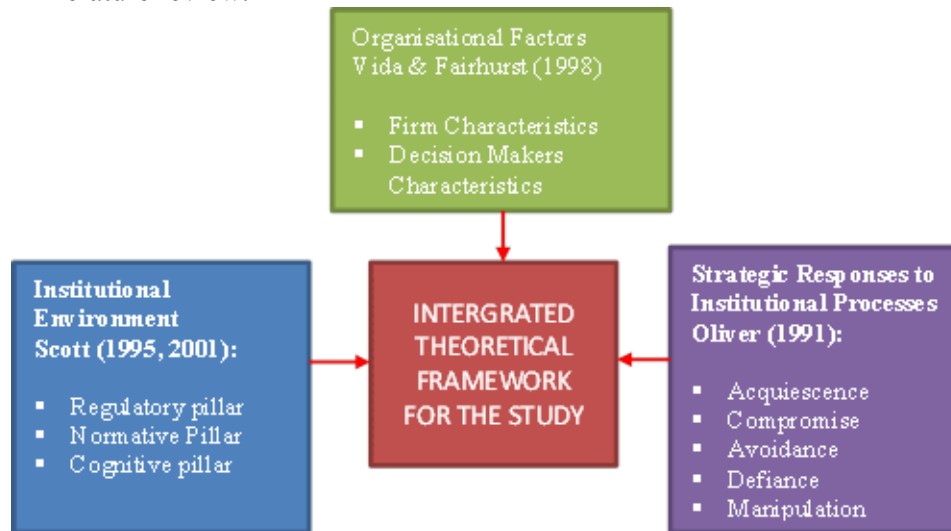
In order to achieve the research aim and objective and answer the research question of the study, certain important theoretical frameworks have been selected to provide main background. The selection process has been guided by the following rationale. First, in order to extend research, newer theories are normally based upon previous ones. The elements addressed in earlier frameworks are normally connected to the later frameworks. For instance, Sternquist (1997) designed a Strategic International Retail Expansion (SIRE) model, which is mainly based on Dunning's (1981, 1988) eclectic paradigm, focusing on ownership, location, and internalization factors that influence strategies of retailers' international expansion. The factors addressed in the SIRE framework were also adopted by Alexander and Myers (2000) in their framework, which emphasizes how retail firms' location decision, entry mode, and expansion strategies influence the internationalisation process. Siebers (2011) also integrate the framework by Alexander and Myers (2000), Evans et al. (2000), and Vida and Fairhurst (1998) to examine the retail internationalisation process of foreign retailers in China. Similarly, some researchers have begun to integrate the theories of institutional and organisational dynamics to explain how differences can persist among organisations that face similar institutional pressures. For instance, Oliver (1991) combines institutional and resource dependence perspective to predict how organisations will strategically respond to various institutional pressures, and Greenwood and Hinings (1996) integrate institutional and internal organisational dynamics to explain radical change. Thornton and Occasio (1999) explain how power and politics within

organisations is contingent on higher order institutional logic. Second, several researchers have shown empirically that organisations' responses to institutional pressures are affected by organisational characteristics-including ownership structure (Gooddrick & Salancik 1996), trust and identity (Kostova & Roth 2002), as well as board of director interconnections and geographical proximity to a peer organisations (Davis & Greve 1997). This study will explore strategic responses choices for the international retailers to respond to regulatory, normative, and cognitive pressures from the institutional environment in an emerging market in post-entry. Thus, its theoretical approach and implication can further contribute to the knowledge of international retailing and international business. This is due to the fact that the expansion process of international firms can directly influence their performance, success, or failure. The study can also raise further questions about the external institutional environment and internal firm characteristics. Therefore, this study will integrate institutional theory, retail internationalisation process literature, and strategic legitimacy literature as the main theoretical background. In this study, three frameworks are considered: Scott (1995, 2001) three pillars of institutions- regulatory, normative, and cognitive; Vida and Fairhurst's (1998) framework, and Oliver's (1991) framework (see Figure 1). The reasons for choosing these three frameworks are:

1. They introduce theoretical and conceptual synthesis for a better understanding of retail internationalisation performance, and explain the pressures exerted by the institutional environment of a host country in the context of retailing, and how organisational characteristics of a firm can influence how it perceives institutional pressures and respond to them. This can provide a good basis for this study to clarify whether interest and agency play a role in how international retailers respond to institutional pressures in post-entry stage in Russia's market.
2. The integration of the three frameworks also complements the limitations of each other. For instance, Oliver's (1991) and Vida and Fairhurst's (1998) framework addressed the limitations of Scott's (1995, 2001) framework which does not account for the role of interest and agency, and internal organisational characteristics as influencing how organisations respond to institutional pressures in the retail internationalisation process. Likewise, the framework by Scott (1995, 2001) complements the limitations of Vida and Fairhurst's framework, which although, acknowledges the external environment as facilitating or inhibiting the retail internationalisation process, but fall short of identifying forces in the external institutional environment which may exert pressures on the operation of international retailers, and the effect the external environment on performance in post-entry stage. The institutional perspective suggests a country's institutional environment is made up of a

set of three dimensions: regulatory, cognitive and normative (Scott 1995, 2001). These three dimensions vary by country and have influence on the decisions managers make because they affect the way business is conducted in a particular country.

3. This study will therefore be able to construct a holistic model to answer the research question and provide both theoretical and practical implications. The three frameworks are explained, analysed and integrated at the end of the literature review.



**Figure 1.** Theoretical positioning of the study

## 1.6 Key concepts of the study

The study applied a number of key concepts of the literature on international retailing and institutional theory, the most significant which are the following.

*Retailer* in this study refers to multiple-product retailers, whose formats include supermarket, hypermarket, membership stores, department store, and cash and carry warehouse retail store. These formats represent the main foreign retail format in Russia.

*Internationalisation of retailing* is defined by Alexander (1997: 37) as: “the transfer of retail management technology or the establishment of international trading relationships that bring to a retail organisation a level of international integration that establishes the retailer within the international environment in such a way as to transcend regulatory, economic, cultural, social, and retail structural boundaries”. This definition identifies two types of internationalisation: the transfer of

retail knowledge (e.g. franchising), and the establishment of retail operations in another country, (e.g. foreign direct investment). In both cases, retailers must transcend and confront international boundaries.

*Post-entry* refers to the next stage after a retailer has completed its pre-entry stages in a foreign market, and starts to expand in the host market. These stages can be identified by the characteristics or activities carried out by international retailers (Dawson & Mukoyama 2006).

*Institutional environment* of an organisation in this dissertation is defined as the set of regulatory, normative, and cognitive institutions operating in the national environment of that organisation. Institutional environment consists of three main types of institutions (Scott 1995, 2001 used the term 'pillars') - regulatory, normative, and cognitive. The institutional environment of an organisation comprise of relatively unstable and well established rules, cognitive structures, and norm that operate in the organisation's environment. The institutional environment of transition economies such as Russia can be considered as unstable as the laws, rules and regulations often change (Roberts 2005).

*Organisational field* here refers to the industry-level. This study views the host institutional environment at the industry context level constitutes the organizational field. The industry context consists of the individual actors and organizations such as consumers, suppliers, unions, employees competitors, regulatory agencies, and professional associations etc. that interacts with each other and with whom the international retailer interlocks through complex web of direct and indirect relationships. Empirically, this study also explores who are the relevant constituents or social actors in the field of retailing in the host market (Russia) and the pressures they exert on Finnish multinational retailers.

*Institutional norms of retailing* here in this study is defines as regulative, normative, and cognitive institutions in a host country that retailers are subject to when they operate within a retail environment (Huang and Sternquist 2007). In order words, institutional norms of retailing refer to the marketing and management practices and business structures of retailers in a host country, and how these practices and structures are accepted and supported by relevant social actors within a field of retailing.

*Strategic responses* refer to operational strategies of Finnish multinational retailers in response to regulatory, normative, and cognitive pressures from the institutional environment of Russia. Accordingly, the business *practices* of Finnish multinational retailers are examined in respect to their functional strategies towards social actors in the organisational field such as consumer, suppliers, and employ-

ees as important resource for retail operations. The *structure* of multinational retailers is examined on both strategic and operational levels. Strategic-level is empirically investigated by studying the ownership mode dimensions as to whether the unit in the host market is wholly owned subsidiary (WOS), or joint venture (JV). Operational level is empirically investigated by studying the retail store structures or formats and marketing and management practices that are transferred by Finnish multinational retailers into Russia's market.

*Organisational legitimacy* has been defined as the acceptance of the organization by its environment (Dowling and Pfeffer 1975; Meyer and Rowan 1976). Suchman (1995:574) formally defined legitimacy as “*a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions*”. Borrowing from general definitions of organisational legitimacy (Suchman 1995), *retailer legitimacy* in this study is defined as the general perception that a retailers' practices and structures is deemed desirable, proper, or appropriate for a social actor to accept or patronize. Retailers' legitimacy is investigated by obtaining interviewees' *perception* about the acceptance of the firm's marketing and management practices and retail store structure or format by relevant social actors.

## 1.7 The structure of the study

After the introductory chapter, the rest of the dissertation is organised as follows: Chapter 2 reviews the literature on retail internationalization and discusses previous theoretical models of retail internalisation and the influence of the foreign environment on retail adaptation. Chapter 3 reviews the literature on new institutional theory and discusses the core concepts of new institutional theory, legitimation strategies and the relevant social actors in a host institutional environment, and presents a conceptual framework for analysing the effect of institutional environment on retailers' strategic response choices to institutional pressures and performance. Chapter 4 presents the research strategy used to answer the research question. This chapter describes the choice of the research methods and then presents the methodology of the qualitative case study. Chapter 5 presents empirical analysis of the institutional environment of Russia and background of the case firms. Chapter 6 presents the results of the study. This chapter presents the results of the analysis and interpretation of the interview data. Finally, Chapter 7 provides discussions and conclusions and theoretical and managerial implications, along with limitations of the study, and suggestions for future research.

<b>THEORETICAL PART</b>	Chapter 1	<b>INTRODUCTION</b> <ul style="list-style-type: none"> <li>• Background of the study</li> <li>• Positioning the study and identifying the research gap</li> <li>• The purpose, research question, and objective of the study</li> <li>• The international retailers as an object of study</li> <li>• Theoretical positioning of the study</li> <li>• Key concepts of the study</li> <li>• The structure of study</li> </ul>
	Chapter 2	<b>RETAIL INTERNATIONALISATION</b> <ul style="list-style-type: none"> <li>• Internationalisation of retailing</li> <li>• Previous theoretical models of retail internationalisation</li> <li>• Internal organisational competencies and international retailing</li> <li>• Summary</li> </ul>
	Chapter 3	<b>INSTITUTIONAL THEORY</b> <ul style="list-style-type: none"> <li>• Institutional theory</li> <li>• Institutional norms for international retailers</li> <li>• Institutional pressures</li> <li>• Strategic responses to institutional processes</li> <li>• Retailer legitimacy</li> <li>• Legitimacy and performance</li> <li>• Investigating business strategies of international retailers in Russia</li> <li>• Synthesis: Conceptual framework for the empirical analysis</li> </ul>
<b>EMPIRICAL PART</b>	Chapter 4	<b>METHODOLOGY</b> <ul style="list-style-type: none"> <li>• Scientific philosophical stance of the study</li> <li>• Qualitative research</li> <li>• Research approach</li> <li>• Case selection</li> <li>• Data collection</li> <li>• Data analysis</li> <li>• Evaluation of the research design</li> </ul>
	Chapter 5	<b>EMPIRICAL ANALYSIS AND RESULTS</b> <ul style="list-style-type: none"> <li>• The Russian economic and business environment</li> <li>• Analysis of Russia's retail environment</li> <li>• Background of case firms</li> </ul>
	Chapter 6	<b>RESULTS</b> <ul style="list-style-type: none"> <li>• Cross-case analysis</li> <li>• Compliance to environment</li> <li>• Selection of the environment</li> <li>• Creation of the environment</li> <li>• Cooperation with the environment</li> <li>• Legitimacy</li> <li>• Performance</li> <li>• Firm and decision makers characteristics influencing retailers' strategic responses to institutional pressures and performance</li> </ul>
	Chapter 7	<b>CONCLUSIONS AND DISCUSSIONS</b> <ul style="list-style-type: none"> <li>• Summary and findings of the study</li> <li>• Theoretical, empirical and managerial contribution</li> <li>• Theoretical and managerial implications</li> <li>• Limitations of the study</li> <li>• Direction for future research</li> </ul>

**Figure 2.** Structure of the dissertation

## 2 LITERATURE REVIEW – RETAIL INTERNATIONALISATION

The main purpose of this chapter is to explore the relevant literature on different aspects of retail internationalization in order to gain a better understanding of potential success for international retail expansion. Although, the main theoretical framework for this study is grounded in new institutional theory, it is necessary to review the literature on retail internationalization as a backdrop of the study. Thus, the first part of this chapter reviews the literature on retail internationalization and highlights the main theoretical frameworks developed to explain this phenomenon. Next, the chapter discusses internal competences of the firm that need to be considered in the retail internationalisation process.

### 2.1 Internationalisation of retailing

International expansion has been an important aspect of many large retailers' growth strategy (Dawson 2001). Alexander (1997:37) defines internationalisation of retailing as: *"the transfer of retail management technology or the establishment of international trading relationships that bring to a retail organisation a level of international integration that establishes the retailer within the international environment in such a way as to transcend regulatory, economic, cultural, social, and retail structural boundaries"*. This definition identifies two types of internationalisation: the transfer of retail knowledge (e.g. franchising), and the establishment of retail operations in another country (e.g. foreign direct investment). In both cases, retailers must transcend and confront international boundaries.

Generally, retailers have started their internationalisation process later than manufacturing firms; and prior to the 1980s, retailing was basically a localized, domestic industry and thus retail operations were long considered poor candidates for international expansion (Tatoglu, Demirberg & Kaplan 2003). A review of the literature revealed that retailers have been internationalising for more than a century (Godley & Fletcher 2000). History on internationalisation of retailing indicates that U.S. retailers were among the first to establish international retail operations (Hollander 1970). For example, according to Alexander (1997), Woolworth expanded to Canada in 1897, to the U.K. by the end of 1909, and to Germany by the end of 1926. Sears Roebuck also expanded to countries such as Cuba in 1942, and Mexico in 1947 (Alexander 1997). In addition, U.S. retailers had an important impact on the diffusion of retail formats such as self-service concepts on European and Japanese retailing during the first half of the century (Kacker

1988). However, during the 1970's, European retailers have developed enough to expand to other markets such as the U.S., the Pacific Rim and recently Latin America (Samiee (1995). For example, both Carrefour of France, and Inditex S.A. of Spain now have operations in many Latin American countries such as: Argentina, Brazil, Colombia, Dominican Rep., El Salvador, Guatemala, Panama Uruguay, and Venezuela (Deloitte 2009). The last two decades saw an increase in retail foreign direct investment into a range of emerging markets across East Asia, Central and Eastern Europe and Latin America led by a small group of food and general merchandise retailers from Western Europe, and to a lesser extent, North America (Coe & Wrigley 2007; Coe & Lee 2006; Dawson 1994, 2001; Deloitte 2009). Indeed, the larger the company, the more likely it is to operate beyond its domestic borders and to generate a higher percentage of its sales from foreign operations. According to Deloitte (2009), considering the level of globalization by broad geographic region, European and Africa/Middle East retailers dominate in terms of the degree to which they operate internationally.

The average Top 250 European retailer had a presence in 14.9 countries in 2010, up from 11.1 countries in 2007, and over 40 percent of their total sales were from foreign operation in 2010, up from 35.1 percent in 2009 (Deloitte 2012). For example, 44% of the sales space of Tesco in 2006 is outside the UK, mostly in Central Europe and East Asia (Dawson 2007). French and German retailers are the most international in scope (Deloitte 2012). According to Deloitte (2009) report on Global Powers of Retailing, the 13 French retailers on the Top 250 list operated in an average 18.9 countries in 2007 and generated 35.3% of their sales from outside their domestic borders; and 21 German retailers did business in an average 13.8 countries and generated the highest share of sales from foreign operations, 41.8%. The estimated global retail sale for the Top 250 retailers in 2010 was US\$ 3.94 trillion (Deloitte 2012). The latest stage of retailer internationalisation has been facilitated by the presence of the third major fundamental innovation in retailing since the 1950s – namely, the convergence of information and communication technologies that has provided tools and concepts enabling effective management of large networked retail firms (Dawson 2007).

Due to the increase retail internationalisation activities on a global scale, a wide range of literature has emerged examining the international activities of European and North American retailers (Dawson 2003). Among the topics researched include: international retail involvement (Vida et al. 2000), motives for retail international expansion (Alexander 1990, 1995; McKenzie & Merrilees 2008; Geilens & Dekimpe 2007; Evans, Bridson, Byrom & Medway 2008; Reardon, Henson & Berdegué 2007; Treadgold & Davis 1988; Tatoglu et al. 2003; Wrigley 1989; Williams 1992; Alexander & Myers 2000), entry mode strategies (Huang &



Sternquist 2007; Larimo & Huuhka 2008), international expansion process (Elg et al. 2008; Ghauri & Holstius 1996), retailers market orientation (Burt, Johansson & Thelander 2011; Coe & Lee 2006; Rogers, Ghauri & George 2005), retail knowledge transfer (Jonsson & Elg 2006; Jonsson & Kalling 2007; Kacker 1985) retail store positioning (McGoldrick & Ho 1992), and the extent and direction of international retail activity (Dawson 2001, 2003, 2007; Robinson & Clerke-Hill 1990; Treadgold 1991; Sternquist 1997).

Other topics examined include supply network dynamics (Deligonul, Elg, Cavusgil & Ghauri 2013; Coe & Hess 2005); host economy impacts (Coe & Wrigley 2007) individual company experiences (Clarke & Rimmer 1997; Bianchi & Ostale 2006; Dawson 2001; Gandolfi & Strach 2009; Kim 2008; Palmer 2005; Sparks 2000; Treadgold 1991; Wrigley 1997), regulatory regimes (Mutebi 2007), international retail failure (Burt, Mellahi, Jackson & Sparks 2002; Burt, Dawson & Sparks 2004; Burt, Dawson & Sparks 2003; Christopherson 2007), retail divestment (Alexander & Quinn 2002; Palmer & Quinn 2007; Palmer 2004) retail store patronage (Arnold, Handelman & Tigert 1996; Arnold, Kozinets & Handelman 2001; Heider & Moeller 2012; Pioch, Gerhard, Fernie & Arnold 2009), structural paradox of retail NTCs (Aoyama 2007; Chuang, Donega, Ganon & Wei 2011), retailers' strategic responses to institutional pressures (Cao & Pederzoli 2013) and retail performance (Bianchi & Arnold 2004; Chan, Finnegan & Sternquist 2011; Duran & Wrigley 2009; Evans, Treadgold & Mavondo 2000; Evans, Mavondo & Bridson 2008). Some conceptual models regarding the internationalisation processes of franchise systems and market mode strategy (Doherty 1999) are also found in the literature. Although these studies have contributed substantially to the understanding of factors leading to retail internationalization, the significance of the institutional environment of the host country on international retailing in post-entry still needs more exploration.

## 2.2 Previous theoretical models of retail internationalisation

A number of theoretical frameworks were developed to assess the retail internationalisation process (e.g. Alexander & Myers 2000; Dawson 1994; Doherty 1999; Elg et al. 2008; Evans et al. 2000; McGoldrick & Blair 1995; Salmon & Tordjman 1989; Sternquist 1997; Vida and Fairhurst 1998). These studies draw from the broad streams of literature on international business, and have also integrated specific aspects of retailing found in the literature. Generally, these studies try to provide better understanding of the drivers of retail international expansion, rather than the outcome of the process. For example, Salmon and Tordjman

(1989) discuss retail internationalisation in terms of whether retailers use a global versus multinational focus. Treadgold (1990) identifies three typical stages in the retail internationalisation process: reluctance, caution, and ambition.

The first stream of literature on retail internationalisation perspective by Salmon and Tordjman (1989) and Alexander (1990) which have been particularly useful in examining motivational and strategic aspects of retail internationalization, includes, global versus multinational focus (Salmon & Tordjman 1989), push versus pull motivational factors and the reactive versus proactive stance of international retailers (Alexander 1990; McGoldrick & Fryer 1993). Simpson and Torpe (1995) developed a set of competitive advantages unique to the international success of fashion/apparel retailers. In an earlier study, Treadgold (1988) examined geographical expansion and strategies employed by the world's major cross-national retailers, and classify those into four groups according to their geographical presence and their entry and operating strategies: the cautious internationalist, the emboldened internationalists, the aggressive internationalists and the world powers. Also focusing on the market selection factors is the framework by Myers and Alexander (1997) and their continuum of retailer's ethnocentric versus geocentric positioning and the global versus local relevance of its concept.

The second stream of existing retail internationalization perspectives has been developed within the broader context of multinational involvement. These perspectives range from the theory of internalization, outlining the prevailing perspective in economics (Buckley & Casson 1976), the eclectic paradigm (Dunning 1981, 1988), to the behavioural paradigm (Cavusgil 1984; Johanson & Vahlne 1977), and institutional theory (Huang & Sternquist 2007). The third group of existing conceptual approaches to retail internationalization includes contributions with the goal of integrating a series of international theories within the broader business literature, synthesizing and adapting them to the peculiarities of the retailing industry in order to develop a holistic model capable of explaining retail internationalization. While some authors such as Dawson (1994) draw attention to the fact that organizational differences between manufacturing and retailing firms may hinder the application of general international business paradigms to retail internationalization, several other scholars have suggested integration and adaptation based on existing knowledge. To this end, some attempts have recently been made to conceptualise the underlying process of retail internationalisation by integrating a number of international business theories and adapting them to the retailing industry.

Sternquist (1997) developed a general model of Strategic International Retail Expansion (SIRE) integrating four interrelated theories: the eclectic paradigm, the

stages and risk theories, and the dichotomy of global versus multinational approach to retail internationalisation. The author distinguished between two alternatives for international retail expansion, labelled multinational and global expansion. Sternquist's (1997) model predicts that international expansion strategy will be characterised by gradual expansion and opening of stores (or licensing), starting with countries that have the greatest location advantages, and are actually similar. In her model, multinational retailers are predicted to adapt their retail strategies to fit the country that they are entering and management will be mainly decentralised. Global expansion strategy on the other hand will internationalise through rapid expansion and opening of stores (or franchising) throughout the world. Sternquist's (1997) model is an important initial effort to conceptualise the internationalisation process of retailers; however, it has some drawbacks. For example, this model does not take into account the measures of performance, or drivers for international success or failure for retailers. In addition, this model does not consider mix forms of international expansion, such as multinational expansion in some markets, and global expansion in others.

Similarly, based on existing international business theories, Vida and Fairhurst (1998) proposed a dynamic model of factors influencing the retail internationalization process and strategic decisions relevant to retail internationalisation. This model contributes to the international retail literature in that it includes antecedents, processes and outcomes of international involvement of retail firms. The model also recognises the potential impact of the external environment on the internationalisation process. In this model, the authors suggest that firm characteristics and decision-maker characteristics are two internal driving forces behind the internationalisation process of retailing which promote or hinder the initiation of international retail activity. Firm characteristics refer to the retailer's source of competitive advantage, such as the uniqueness of products, merchandise assortment, unique retail concept, or competitive pricing, along with the necessary resources for international expansion. Decision-maker characteristics refer to the experience, attitude, and leadership qualities of managers that take part in this process.

In their model, Vida and Fairhurst (1998), recognise that even though the factors that start the process of internationalisation are company-specific, they occur within a domestic environment that supports such developments. In other words, the model acknowledges that a retailer's source of competitive advantage is developed in a specific domestic market which has facilitated its development. Hence, retailers that internationalise into new markets will need to modify their internal structures and systems to fit the new environment. Although the framework addresses firms' performance of international retail operations, it particular-

ly focuses on firms' entry mode and initial market selection and therefore does not have the ability to explain how identified factors such as external and characteristics of the firm and decision maker influence the expansion process of foreign retail firms at their post-entry stage. More specifically, their framework does not explain how the external environment can promote or inhibit retail internationalisation, or how for example, management executives can deal with these problems at post-entry in the foreign market.

This highlights the question of how the external environment influences the expansion process of foreign retailers. However, the model does recognise that characteristics of the foreign country task environment, particularly due to different socio-cultural, legal, political and economic factors that are key differences between the domestic and international markets. This dynamic framework provides overall picture of international retailer's internationalisation process and can be used as basis for future research on expansion activities of retail operations in international markets (Vida & Fairhurst 1998). This framework is therefore adopted to analyse the factors that influence the expansion process of Finnish multinational retailers in this dissertation. Vida and Fairhurst's framework provides one important factor category that can be used as a theoretical background to examine international retailers' strategic response choices in the Russian market. The factor category of internal competencies involves firms' and decision-makers' characteristics.

More recently, Alexander and Myers (2000) also proposed a general framework for addressing the internationalisation process of retailing which place emphases on the role of environmental characteristics to a large extent. Parallel to Vida and Fairhurst's (1998) work, the model by Alexander and Myers (2000) implied that the source of competitive advantage exploited by a retailer in the domestic market is related to the firm's internal capabilities (e.g. management and organisational capabilities). This model also recognises that the source of advantage exploited by a retailer is developed within a set of domestic environmental factors, and when transferring this source of advantage to a different market, conditions may not be the same and the retailer will experience the influence of the host environment pressures. Faced with this situation, the retailer therefore will decide to readjust its source of competitive advantage to match with the new market conditions, or not to respond to these pressures. The framework by Alexander and Myers (2000), therefore suggests that internationalising retailers may choose to respond or not to pressures and identifies the role of the environment as being similar or different from the domestic market.

This model asserted that the internationalisation process will be affected by two forces: the company's willingness to respond to environmental pressures (ethnocentrism versus geocentrism), and the characteristics of the market (similar different from home market). Thus, the authors suggest that retail firms will achieve different degrees of internationalisation based on these two dimensions, and the most internationalised retailers will be the ones that reach more distant markets and respond systematically to environmental pressures. Parallel to Vida and Fairhurst's (1998), this model does not account for hybrid method of internationalisation, such as adapting to pressures in some countries, but not in others. In other words, even though Alexander and Myers's (2000) framework is richer dimensionally as compared to Sternquist's (1997) model, the Alexander and Myers (2000) model still does not connect placement on the dimensions that may lead to retailers legitimacy and performance.

Evans et al. (2000) also proposed framework for addressing the retail internationalisation process which emphasises the role of psychic distance. Psychic distance is defined as 'the distance between the home market and a foreign market resulting from the perception and understanding of cultural and business difference' (Evans et al. 2000: 377). These differences include legal restrictions, language differences, market structure, and business practices. The framework by Evans et al. (2000) tended to present a holistic framework based on international retailing and international business literature, stressing that perception and understanding of psychic distance influences international retail operations and results in variations in their performance. They argue that firms' organisational and managerial characteristics together with the psychic distance concept provide a holistic framework for further research to explain retailers' different operational performance in foreign markets.

The framework of Evans et al. (2000) shows that organisational and managerial characteristics influence psychic distance, so that firms pursue different decision-making processes and entry strategies, which dictate the nature of the retail offer and further organisational performance. The framework asserted that when firms enter an international market, their understanding of psychic distance between home and host countries will influence the nature of their future performance. The degree of influence depends largely on what firms have learned from the international market (Evans et al. 2000). Although the framework addresses firms' performance of international retail operations, it particularly focuses on firms' entry strategy and adaptation versus standardisation of the retail offer (marketing-mix strategy). More specifically, this framework does not account for variations in the organisational field and the role of social actors in legitimating the retail offer, and the effect on performance.

## 2.3 Internal organisational competencies and international retailing

Not only macro-elements but also micro-factors at the organizational level are critical for firm internationalisation. For instance changes in the organizational structure and resource commitment may be required when transferring retail formats and management practices across national boundaries to ensure management structures gain stable international growth (Whitehead 1992). Lack of knowledge and resources are the major hindrance to internationalisation (Johanson & Wiedersheim-Paul 1975). Thus, firms' internal competencies need to be taken into account in the post-entry expansion process of international retailers in the foreign market.

### 2.3.1 *Firms' characteristics*

The dynamic retail internationalisation process model proposed by Vida and Fairhurst (1998) depicts the interplay of firm's and decision maker's characteristics, along with the external environment, serves as facilitators or inhibitors for whether a firm will initiate international retailing activities, maintain a constant level, increase or decrease its level of international involvement, discontinue its international retail involvement. While Vida and Fairhurst (1998) model acknowledged the influence of external environmental factors, the focal attention is given to the critical impact of the decision maker's characteristics and firm characteristics. Firm characteristics refer to the retailer's source of competitive advantage, such as the uniqueness of products, merchandise assortment, unique retail concept, or competitive pricing, and size along with the necessary resources for the retail internationalisation process. Decision-maker characteristics refer to the experience, attitude, and leadership qualities of managers that take part in this process.

Vida and Fairhurst (1998) suggested two characteristics internal to the firm play an important role in retail internationalisation process: *resource commitment and differential advantage*. The importance of firm's resource availability in international expansion has been emphasised in previous marketing studies (Cavusgil & Zou 1994; Johanson & Vahle 1977; Reid 1981) and in international retail expansion (Evans et al. 2000; Vida & Fairhurst 1998). In her framework, Vida & Fairhurst (1998:146), refer to resource commitment factors as "the firm's financial and human resources available for assignment to international expansion by the corporate level of the organisation. It is implied that in the early stages of retail firm expansion into foreign markets, the firm or its top management may be less

willing and /or in a position to commit significant resources to its international operations (Vida & Fairhurst 1998:146). The ultimate outcome of each stage will have an effect on this dimension as the amount of resources committed will tend to increase if the first international attempt offers positive results.

Retailers that internationalise rely on key operating factors to enhance their performance and competitiveness in foreign markets. In retailing, the factors that draw a customer to buy from one retailer rather than another are defined as the retailer's differential advantage. Hollander (1970) maintained that the retailer that engages in international expansion has to exploit its differential advantages in search of customers and profits. A firm's distinctive competence is comprised of the elements of its retailing operations mix which are important for success. These distinctive strengths augment the retailer's offering and lay foundation for its competitive advantage. Vida and Fairhurst (1998:146) refer to differential firm advantage as "the uniqueness of a firm's product/services to be introduced in international markets" has been regarded as "attention evokers" for the firm (Cavusgil 1982; Wiedersheim-Paul, Olson & Welch 1978).

Numerous researchers have noted that an increase in a firms' international involvement will improve the performance of their foreign operations (Cavusgil 1980; Cavusgil & Zou 1994; Johanson & Wiedersheim-Paul 1975; Evans et al. 2008; Siebers 2011). In the framework of Evans et al. (2000), the emphasis is on firm characteristics and their international experience, which are positively linked to international performance. These connections are interesting and potentially important, but need to be supported by empirical research in the Russian retail market. *Considering the above, this study will investigate the following factors under the category of firm's characteristics: resource commitment and differential advantages.* In this study, *resource commitment* refers to a firm's financial and human resources capacity for international expansion, and the level of resources committed to international expansion (Vida & Fairhurst 1998). *Differential advantage* in this study refers to the uniqueness of a firm's products or services introduced in the foreign market (Cavusgil 1982), such as unique retail concepts, close relationship with channel members, competitive pricing (Williams 199), and new formats (Katzen 1993).

### 2.3.2 *Decision-makers' characteristics*

In the international marketing literature, the behavioural approach to the internationalisation process has been gaining research interest since the late 1990's to examine the influence of firms' characteristics and manager's attitude to foreign markets and marketing systems, where managers' attitudes are seen as an im-

portant measure (Wind et al. 1973). The foreign investment decision-making process is a complex social process, which involves intricate structures of attitude, opinion, and relationships inside and outside the firm and the way all these factors are changing (Siebers 2011). The foreign investment decision-making process contains various elements of individual and organizational behavior which are influenced by experiences of the past, and perceptions of the present, and future (e.g. Johanson & Vahlne 1990). In many studies, the decision-makers' characteristics have been seen as having important influence on international company behaviour and strategy (Hollander 1970; Siebers 2011; Treadgold 1990; Vida & Fairhurst 1998; Vida et al. 2000; William 1991). This also relates to international retailing where managerial knowledge, experience, and attitudes have to be considered important (Hutchinson, Quinn & Alexander 2006a). Alexander and Myer's (2000) include leadership in addition to perceptions, attitudes, and experience as elements in firms' internal competencies, which influence the retail internationalisation process. Evans et al. (2000) argue that manager's direct work experience gained in the foreign market is likely to result in a more accurate perception of psychic distance resulting in better performance of the firm in that market.

According to Leonidou et al. (1998), there are two sets of managerial factors that are important: objective factors such as the educational background, experience, and foreign country exposure of the decision-makers; and subjective factors such as the perceptions, attitudes, and behaviour of the decision-makers. In applying the Nordic model, which explains how behaviours and attitudes change a firm's experiences during its internationalisation process, Vida and Fairhurst's (1998) framework identified three elements of decision-makers' characteristics which are influenced by the external environment: perceptions and attitudes, experience and knowledge. *Experiential knowledge* is a key determinant of retailer's international involvement is emphasised in the dynamic internationalisation model by Vida and Fairhurst (1998). Experiential knowledge represents accumulated hands-on skills or experience that allows managers to operate effectively and efficiently (Von Hippel 1988; cited in Chan et al. 2011). It is suggested that retailers keenly learn from their previous foreign market expansion mistakes to improve performance in the subsequent entries (Palmer & Quinn 2005).

*International experience* refers to the experience of a retailer gained by operating in foreign markets (Treadgold 1991; O'Grady & Lane 1996; Evans et al. 2000). For example, Johanson and Vahlne (1990) found that an experience decision-maker can perceive future transaction costs differently from an inexperienced one, and the later might be influenced by their lack of knowledge about the foreign market and also by their lack of established relationships with key parties, especially customers in the foreign market. In order to examine how decision-



makers' characteristics influence retailers' strategic responses to institutional pressures and performance in Russia's market, this *study focuses on two elements: perceptions and attitudes, and work experience.*

*Perception and attitudes* refer to decision-makers' perception of the favourability of the international market together with their attitudes towards risks, complexity, and potential returns from further retail internationalisation (Vida & Fairhurst 1998). *Work experience* refers to the decision-makers' previous and current involvement in international business and retailing, their exposure to international affairs (Leonidou et al. 1998; Vida & Fairhurst 1998), and their direct experience in the host market (O'Grady & Lane 1996). The decision-making characteristic can also build the legitimacy of an international retailer. For example, members of board of directors are there to increase the retailers' legitimacy; each new prominent member increases legitimacy of the firm.

In addition, international retailers can build higher level of legitimacy by hiring well-qualified executives and top managers with experience, education, and/other credentials to access capital (Deeds et al. 1997; cited in Zimmerman & Zeitz 2002; Zimmerman & Deeds 1997). The education, experience, and credentials of top managers indicate the potential for success of the firm (e.g. Chaganti et al. 1995; Certo & Hodge 2007). The stock market also often reacts positively or negatively to the appointment of a new board member or chief executive officer (CEO) to the firm. This study supports the view that retail firms' characteristics and decision-makers' (managers) characteristics will affect how international retailers perceive institutional pressures, and how they decide to respond. In other words, decision-makers in organisations pay attention to different aspects of the firm's external and internal environments, depending on the cognitive frame through which they see the world (Hoffman 2001). Cognitive frames are mental representations decision-makers use to interpret and make sense of their work (Delmas & Toffel 2004).

Firm's characteristics also influence the ability to respond to institutional pressures, as well as gain legitimacy from target constituents in a new host environment. Dacin, Oliver and Roy (2007) pointed out that the type of legitimacy required by a firm and in turn, the specific target constituents to which a firm must appear legitimate will be driven by the firm's objective in a particular context, the characteristics of that environment, and the firm's characteristics. Firm characteristics such as (size) visibility and social impact of a firm's activity or output, and a firm's image of social responsibility, will also determine need for legitimacy (Dacin et al. 2007). Furthermore, Dacin et al. (2007) suggest that the need for market legitimacy is great when a firm lacks the characteristics that contribute to

the target's market legitimacy perceptions of the firm, such as experience, a positive reputation, success, or government approval in the market.

## 2.4 Summary

This chapter reviewed theoretical frameworks on retail internationalisation and identified the limitations of the theoretical models. In previous conceptual and empirical work on retail internationalisation, scholars offer a number of RI frameworks and classifications, which vary in the depth of analysis, their applicability and empirical thoroughness. A review of the literature indicates existing theoretical conceptualisations of retail internationalisation by authors can be based on three classifications. Authors develop a retail-specific classification based on observations of idiosyncratic behaviour of existing international retailers and knowledge of industry. Authors also draw on theories in the domain of international business, management and marketing to conceptualise retail internationalisation. Furthermore authors choose to integrate and apply a series of established international business paradigms to conceptualise retail internationalisation. Although the contribution of these frameworks to the retailing literature is notable, most of this work addresses the drivers and mechanisms of the internationalisation process. There is still a need to develop a richer framework for understanding the retail internationalisation process and outcomes, such as post-entry aspects, strategic response choices, and performance of international retailers. Prior conceptual frameworks thus fall short of providing a deeper understanding on post-internationalisation issues such as how retailers respond to institutional pressures or how to succeed when operating in foreign countries.

In line with these thoughts, retail scholars suggest that more theoretical work is needed because the internationalisation process is still not well understood. For example, Dawson (1994) pointed out the need to do away with the notion that retail internationalisation is just about retailers opening stores overseas. Drawing on Dawson (1994), Sparks (1995) argued that retail internationalisation is a long term process which includes many different dimensions, and thus should be studied as such. Likewise, Alexander and Myers (2000) pointed out that "while specific research work has established an understanding of what has happened and the pressures and tensions that have influenced international activity, a suitably developed conceptual framework has not been achieved. This study integrates the literature on retail internationalisation (Vida & Fairhurst 1998), and institutional theory (Scott 1995, 2001), and Oliver's (1991) framework on strategic responses to institutional processes to provide an alternative framework for analysing the research question of the study.

### 3 LITERATURE REVIEW – INSTITUTIONAL THEORY

Of special interest within this dissertation is the effect of the foreign institutional environmental on retail internationalisation. The second part of the literature review for this study introduces institutional theory as a framework to address the international retail expansion process. Within this framework, the main focus is on describing the elements of the institutional environment (i.e. regulatory, normative, cognitive, institutional field, institutional norms, social actors) and how they affect retail internationalisation outcomes such as store legitimacy (e.g. consumer, employee, and supplier support) and firm performance. First, the chapter discusses institutional theory, the institutional environment and organisational field and social actors. Next, this chapter discusses institutional norms for international retailers and institutional pressure along the dimensions of regulatory, normative, and cognitive institutions in the context of international retailing. Next, the chapter discusses strategic responses to institutional processes and legitimacy and performance in relation to international retailing. The chapter then ends with a discussion of the business strategies of international retailers to be investigated in Russia's market and a presentation of the conceptual framework developed from the literature review for the empirical study.

#### 3.1 Institutional theory

Institutional theory examines the role of social influence and pressures for social conformity in shaping organizational actions. The fundamental principle of institutional theory is that the institutional environment is composed of institutions and social actors that will provide normative pressure for the structures and practices of social actors (DiMaggio & Powell 1983; Scott & Meyer 1983). An organisation must conform to these pressures in order to gain 'social acceptability and credibility' (Scott 2001: 58), and legitimacy (DiMaggio & Powell 1983; Scott 2001). Within this environment, organizational forms and practices are not shaped purely by technical rationality, but organizations adopt patterns that are externally defined as appropriate. Thus, there is a social interdependence of organizations and their environment.

Under this theoretical framework the overall goal of the firm is survival, and therefore, organizations conform to institutional norms, not necessarily for reasons of efficiency, but rather to increase their legitimacy and survival capabilities (DiMaggio & Powell 1983, Meyer & Rowan 1977). Thus, the social pressures are viewed to be equally important or even in some occasions than market competi-

tive pressures in providing criteria for organizational survival (DiMaggio & Powell 1983). A widely recognized definition of institution is proposed by Scott (1995, p. 33): “institutions consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behaviour. Institutions are transported by various carriers – cultures, structures, and routines – and they operate at multiple levels of jurisdiction”.

For an organisation to survive, institutional theory emphasises the need to maintain a good relationship with the relevant social actors who participate in the organisation’s environment, ‘who are not just competing firms, suppliers, employee, families and environmental protection or consumer activists’ (Bianchi & Arnold 2004:152). Identifying the above social actors of an institution and gaining their support will therefore place the organisation in a better position on the road to success in a foreign country, and increasing the firms’ likelihood of survival by successfully conforming to the country institutional elements (DiMaggio & Powell 1983).

In summary, the institutional theory suggests that organisations that conform to relevant *institutional norms* within a market are more likely to be legitimated among social actors such as customers, employees, competitors, trade associations and governments in order to receive support (DiMaggio & Powell 1983; Meyer & Rowan 1977). The overall goal of the firm then under this theoretical framework is survival, and therefore organisations conform to institutional norms, not necessarily for reasons of being efficient, but rather for the convenience of maintaining their legitimacy and survival capabilities (DiMaggio & Powell 1983; Meyer & Rowan 1977). Although very little attention has been paid to examining the role of institutions in internationalization process of firms, the importance of the institutional theory has already been considered in various disciplines, such as economics (North 1990), sociology (Zucker 1987), organizational behaviour (DiMaggio & Powell 1983; Meyer & Rowan 1977), international business (Arslan 2011; K.D. Brothers et al. 2002; Lu 2002; Westney 1993; Yiu & Makino 2002), and recently in international retailing (e.g. Arnold et al., 2001; Bianchi & Arnold 2004; Handelman & Arnold 1999; Cao & Pederzoli 2013; Deligonul et al. 2013; Duran & Wrigley 2009; Evans et al. 2000; Evans et al. 2008; Hung & Sternquist 2007; Pioch et al. 2009).

### 3.1.1 *Institutional environment*

It is vital to note that the notion of the institutional environment varies across disciplines. For example, economic theorist view the institutional environment as the exchange environment in which economic transactions are conducted by rational-

ly bounded individuals (Williamson 1985). For economic historians, the institutional environment is the set of political, social and legal rules such as government regulations, property rights, and societal rules, which establishes bases for exchange norms (North 1990). Both disciplines emphasize the regulative structures as constraints for social actors within the institutional environment. For sociologists and organisational behaviourists, the institutional environment is viewed as socially constructed and characterised by a variety of norms that serve to legitimate organisational actions (Scott 1987; Zucker 1987). These disciplines emphasise the cognitive and normative structures of institutions that provide social meaning and prescribe appropriate behaviour for social actors, in addition to the regulative environment.

Examples of early institutional theorists are Selznick (1949), and Berger and Luckmann (1967). Selznick (1949) found that organisations were affected by forces from their institutional environments and that they developed adaptive structures and behaviours to deal with those institutional forces. Berger and Luckman (1967) contended that humans cannot be understood outside the social context within which they live, which becomes perceived as objective reality. Meyer and Rowan (1977) discussed institutionalisation as a process of 'legitimation' where institutional structures are legitimated without regard to the effectiveness of those structures. The authors distinguish between an organisation's technical and institutional environment.

The technical environment demands physical output in the form of products, services, and profit, while the institutional environment demands structures, ideologies, and processes in order for the organisation to become legitimate. Scott and Meyer (1983:140) indicated, "institutional sectors are characterised by elaboration of rules and requirements to which individual organisations must conform if they are to receive support and legitimacy from the environment", and "technical sectors are those within which a product or service is exchanged in a market such that organisations are rewarded for effective and efficient control of the work process".

According to these authors, organisations need to deal with both environments: the technical and the institutional, therefore not all actions necessarily increase efficiency. DiMaggio and Powell (1983) also contended that organisations are less a product of efficiency consideration but instead, they reflect institutional pressures. The authors suggested that because of institutional pressures there will be increasing isomorphism (homogeneity) among organizations within organisational fields. This isomorphic effect can be due to coercive pressures exerted on organisations by other organisations upon which they are dependent, such as gov-

ernments, consumers, suppliers, or the parent corporation of a subsidiary company; mimetic pressures as a result of uncertainty, and normative pressures due to the fact that professionally trained employees influence the routines in the organization where they work. According to DiMaggio and Powell (1983), organisations acquire legitimacy by three forms of isomorphism: coercive isomorphism, normative isomorphism, and mimetic isomorphism, which are the three mechanisms upon which Scott's (1995, 2001) regulative, normative, and cognitive pillars are based.

In this dissertation, the institutional environment is based on the work by Scott (1995, 2001). *Institutional environment* of an organisation is defined as the set of regulatory, normative, and cognitive, institutions operating in the national environment of that organisation (Kostova 1996). Compared to the alternative concepts of task and functional domains or cultural environment, the concept of institutional environment is more encompassing and suitable for this study. The institutional environment on an organisation consists of relatively stable and well established rules, cognitive structures, and norms that operate in the organisation's environment, relating to that particular organisation, and get transmitted into the organisation through individuals (Kostova 1999).

Institutional environments are comprised of three main types of institutions (Scott 1995, used the term 'pillars') – regulatory, normative, and cognitive (see Table 1). These three pillars of institutions are the focal elements of institutions, and these factors together with accompanying activities and resources construct a social structure that provide meaning to social life (Scott 2001). The regulative pillar of the institutional framework lays out the ground rules for doing business, reflecting the laws and regulations of a region or a country and the extent to which these rules are effectively monitored and enforced. Regulatory structures are relatively rational, negotiated arrangements to exchange problems that can change readily (North 1990). Regulatory legitimacy occurs when laws and regulations are passed that recognizes and helps to safeguard the legal right of the industry to exist. The normative pillar consists of beliefs, values and norms that define expected behaviour in a society. The cognitive pillar rests on the cognitive categories (e.g. schemata and stereotypes). The normative and cognitive institutional pillars are quite resilient and less subject to change than are the regulatory pillars (Scott 2001). These institutional elements are socially constructed over time and come to be "perceived as objective and external to the actors: not as man-made but a natural and factual order" (Scott 1995: xvii). A normative evaluation of legitimacy concerns whether the organization's activities are proper and consistent with influential groups and societal norms (Suchman 1995). A cognitive evaluation of legitimacy concerns the congruence between an organization and its cultural envi-

ronment (Meyer & Scott 1983). Scott (2004: 51) explains that the integration of all three elements as ‘contributing interdependent and mutually reinforcing ways’ has potential flaws. Scott (2001, 2004) for example, draws attention to the difficulty of differentiating each element of the three pillars, and that the elements of institutions are not monolithic; therefore subjecting them to modification and conflicts. Scott (2004) noted that this concerns are however natural, given that the elements of institutions continue to metamorphose over time.

**Table 1.** Three pillars of institutions

	Pillars		
	Regulative	Normative	Cognitive
Basis of compliance	Experience	Social obligation	Taken-for-grantedness Shared understanding
Basis of order	Regulative rules	Binding expectations	Constitutive schema
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicator	Rules	Certification	Common beliefs
	Laws sanctions	Accreditation	Shared logics of action
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible Recognisable Culturally supported

Source: Scott (2001: 52)

Scott (2004) implied that the framework of new institutional theory instead ‘will depict and differentiates among three complexes of ideas, each of which provide the ingredients for an alternative conception of and an explanation for institutions’ (Scott 2004: 10). Thus, this dissertation is of the view that adopting this framework will provide a comprehensive framework that will be positioned to capture various components of the host country’s institutional environment. Neo institutional framework therefore needs further investigation, particularly, how each dimension of institutional theory applies within international retailing settings.

### 3.1.2 *Organisational field*

Within the new institutional perspective, organisational field is a fundamental concept. The analysis of organisational fields rather than environments permits a

focus on the relationships between organisations. Scott defines organisational field as “existence of a community of organisations that partake of common meaning systems and whose informants interact more frequently and fatefully with one another than with actors outside the field” (Scott 1995: 56). DiMaggio and Powell (1983: 148) describe organisational fields as “those organisations that in the aggregate constitute a recognised area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organisations that produce similar services or products (DiMaggio & Powell 1983: 148). Thus these scholars explain an organisational field as a recognised domain of human activity in which interdependent organisations interact and thereby construct an institutionally determined value space within which they exercise choice.

It is worth noting that the concept of the organisational field implies, theoretically that organisations in the same field may be located in different countries. Some authors, in stressing the importance to view organisational fields beyond country borders, discuss the global activities of multinational corporations, professions, consultants, and business schools that shape and contribute to the diffusion of institutions between different country borders (e.g. Guler, Guillén & McPherson 2002). Nevertheless, the new institutionalists, in focusing primarily on empirical studies conducted in North America, tend to equate the borders of organisational fields with country borders (Tempel & Walgenbach 2007).

This study also limits the concept of the organisational field to the country borders. Although, to some extent, this study acknowledges that the global dynamics of economic development make country borders less meaningful today, nevertheless the position of this study is that one cannot ignore such borders. Economic activity is embedded in nationally distinctive, institutional arrangements that are shaped by different physical, economic, political and cultural factors. Country institutional arrangements are the result of specific historical pathways that interlink in a complex whole, that persist over time and have a significant impact on the behaviour of organizations (Ferner et al. 2001; Whitley 1992). Both definitions of organisational field above thus direct attention to the social nature of the relevant social actors that participate in the organisation’s environment. In applying the concept of organisational field in this study, one could say a firm’s institutional environment at the industry context level constitutes the organisational field.

An industry context like retailing consists of the individual actors and organisations such as consumers, suppliers, competitors, regulatory agencies, professional associations, unions, politicians, the media, and environmental protection or consumer activist organisations, and so on, that interact with each other and with



whom a firm interlocks through complex webs of direct and indirect relationships. These interactions within an industry context become the playing field in which firms and other organisations define, defuse or enforce the multiple institutional norms and requirements of acceptable organisational and individual actions (Dacin, Oliver & Roy 2007; D'Aunno et al. 1991). For example, firms that interact through industry associations may give rise to certain shared understandings about organisational activity problems and their solutions. Furthermore, governments sometimes consult with leading firms in various industries in order to write rules and regulations for those industries (Ahlstrom, Bruton & Yeh 2008).

### 3.1.3 *Social actors*

Following the previous definition, (Scott 1995:56) organisations are seen as social actors embedded in an institutional environment along with other social actors, within an organisational field. Social actors can be metaphorically described as the 'actors' that perform in a stage called 'organisational field' within a setting that is the institutional environment (Scott 1995, 2001). Social actors are important in an institutional framework because they shape the relevant institutional norms in the organisations' environment and at the same time, respond to them by conforming to these norms (Bianchi 2002). This is because institutions do not have minds of their own, but are only rules created by social actors to prescribe and regulate proper behaviour and confer legitimacy to organisations that engage in practices that are consistent with institutional norms (Douglas 1986). Relevant social actors found in each country are a creation of social forces that are rooted very deep in the society. For example, relevant social actors for organisations usually consist of consumers, suppliers, competitors, trade associations, the media, unions, and regulatory agencies (Elg et al. 2008; Deligonul et al. 2013).

Each of these social actors expects retailers to conform to certain norms of retailing which are institutionally based, and relevant for them to provide legitimacy. Well established and successful retailers in their own home markets are already legitimate among social actors such as government, consumers, suppliers, and shareholders. However, when retailers expand to new markets, they must consider that they will face a new set of social actors within the host environment that will be relevant for achieving legitimation. Thus, international retailers will need to maintain legitimacy from some social actors located in the home market (e.g., shareholders, parent firm), while at the same time they will need to acquire legitimacy from new social actors located in the host market (e.g., host government, consumers, suppliers, trade associations, media).

*Host government*

The host government is a relevant social actor for retailers because it creates laws and regulations regarding store location, store size and hours of operation which are reflected in the norms of retailing of each country. Local municipal planning requirements may restrict the development of retail stores in certain locations, or can even restrict large scale retail operations such as hypermarkets (Alexander 1997). A case in point is IKEA's initial attempt by to expand to Finland in the 1980's which was blocked because of government regulation on store size. For example, as pointed out by Huang and Sternquist (2007), European governments have strict regulations on land planning (e.g. PPG6 in England), pricing (e.g. Loi Galland in France), store opening hours (e.g. Ladenschlussgesetz in Germany), and store size requirement (e.g. Loi Raffarin in France). These rules not only motivate many European retailers' aggressive expansion into other countries but also slow down foreign retailers' expansions (e.g. Wal-Mart) into European markets.

In essence, retailers have to conform to these norms which are embedded in the institution of state, in order to receive support from governments. Governments can also dictate the appropriate entry mode of international retailers when expanding internationally. For example a study by Elg et al. (2008) showed that the management of IKEA relied very heavily on the government of China in their expansion to the Chinese market. They pointed out that the assistance of district governments, municipal governments, and the central governments were crucially important. Wal-Mart opened its first super-center in China by negotiating directly with the government of China, who mandated a local partner for each store (Halveson). In this case, the relevant norms of retailing for government are probably based on institutions of nationalism in China, and include partnership with the government.

*Host suppliers*

Host suppliers are also relevant social actors for retail firms (Elg et al. 2008; Deligonul et al. 2013). Unless the international retailer decides to buy all its products from outside, it will have to deal with domestic suppliers and obtain their legitimacy. Some ways in which domestic suppliers can support foreign retailers is through their wiliness to sell goods to foreign retailers (Aoyama 2007) and through merchandise availability, timely delivery and acceptance of credit, and willingness to manufacture retailer-owned-brands. Particularly crucial for the relationship between suppliers and retailers is the institution of relational exchange. Research on exchange relationship between buyers and sellers suggest that institutional norms of exchange can differ across countries because of differences in culture and traditions (Usunier, 2000; Herbig, 1998). Norms of relational ex-

change refer to expectations of exchange behaviour between buyers and sellers that are related to partnership, such as commitment, loyalty, trust and politeness (Bianchi 2002).

#### *Host consumers*

Host consumers are important social actors for retailers and their legitimacy and support is critical for firm survival. Consumer support for a retailer is provided through consumer patronage, which is one of the most important factors leading to internationalisation performance (Dupuis & Prime 1996). Consumer patronage can be reflected in the consumer's intention to shop, consumer's store loyalty, and consumer's recommendations to others (Arnold, Handelman & Tigert 1996). According to institutional theory, consumers will patronize retailers that develop retail practices which conform to the relevant norms of retailing for consumers (e.g. Bianchi & Arnold 2004). Numerous studies have found that retailers that develop practices conforming to the economic-based norms of low prices, convenience, assortments, quality, and service receive greater patronage from consumers (e.g. Arnold, Oum & Tigert 1983; Bearden 1977). In addition, recent research has also shown that conformance with societal-based norms such as community and family (e.g. Aoyama 2007; Choi 2003; Coe & Lee 2006; Handelman & Arnold 1999) enhance consumer store patronage.

#### *Host competitors*

Host competitors can also be considered social actors, especially for retailers entering a new market (Bianchi & Ostale 2006). Host competitors expect that new entrants behave accordingly to the norms of the host market. For example, norms of retailing for competitors can be competitive prices, transparent practices, and fair competition. When international retailers fail to comply with these norms, local retailers may complain to local governments, require some protection, or form partnership with other competitors.

#### *Host employees*

Employees are important social actors for retailers because they participate and interact very much with consumers during the shopping process. Retailers need the employee's support in order to provide good service quality and maintain a certain image of their stores. In some cases of specialty retailing, well-trained employees can even be the main source of competitive advantage for retailers (e.g. IKEA, Stockmann). Employees therefore, support a retailer through job commitment and performance. Norms of retailing for employees refer to fair con-

tract, fair recruitment, competitive salary, legal hours, etc.). These norms derive from the institution of work.

#### *Host business community and professional associations*

The host business community and professional associations are important social actors for organisations because they provide normative pressures for organisational conformance (DiMaggio & Powell 1983). In the retail field, norms for professional can consist in expectation of retail manager having a certain level of education and expertise, and participating in professional boards and events (Bianchi & Ostale 2006).

#### *International trade associations*

In the emerging global environment of the last decade, there are international social actors composed of a number of domestic and international trade associations and economic organisations such as the World Trade Organisation (WTO), World Bank, European Union (EU), North Atlantic Free Trade Association (NAFTA), and the International Monetary Fund (IMF) that help regulate the trading environment and markets.

#### *Shareholders and parent firm*

Shareholders are still relevant social actors for international retailers, and necessary for retailers to operate, expand and grow. Retailers that wish to internationalize require first of all support from their shareholders in order to expand abroad. Shareholders provide support to retailers through capital (resources) authority to make decisions (delegation), and decentralised structure (geocentrism). Norms of retailing for shareholders are mostly related to economic expectations of return on capital, but it can also include norms related to standardisation of organisational practices, and compliance with ethical issues.

#### *Host media*

Media influence and reflect the values of culture (e.g. Deephouse 1996; Dowling & Pfeffer 1975). When the activities on an organisation are illegitimate, comments and attacks will occur, and the media will report such comments (Dowling & Pfeffer 1975; Pfeffer & Salancik 1978: 194). The media reflects the views of the general public, and retailers' structures and practices must conform to the expected norms of retailing as the general public view as appropriate. The local media assumes a monitoring role by reporting illegitimate actions of foreign retailers which lowers public support and acceptance.

### 3.2 Institutional norms for international retailers

Institutional norms of retailing here in this study is defines as regulative, normative, and cognitive institutions in a host country that retailers are subject to when they operate within a retail environment (Bianchi 2002; Huang & Sternquist 2007). In order words, institutional norms of retailing refer to the practices and structures of retailers in a host country, and how these practices and structures are accepted and supported by relevant social actors within a field of retailing (e.g. Arnold et al. 1996; Bianchi 2002; Bianchi & Arnold 2004; Deligonul et al. 2013; Dupuis & Prime 1996; Karhunen 2007). Institutional norms of retailing can be economic-based, which are norms related to the task environment (e.g. norms of low price, convenience, product and service quality), or societal-based, which are norms that are not related specifically to the competitive environment but to the social environment (e.g. norms of government, family, community, or nation) (Arnold et al. 2001; Bianchi & Arnold 2004).

Both types of institutional norms influence retailer legitimacy and performance (Bianchi & Arnold 2004; Bianchi 2002; Handelman & Arnold 1999; Arnold 2001). Numerous economic-based and societal-based institutional norms limit retail behaviour and exert pressure for compliance within the field of retailing in a host country (e.g. Aoyama 2007; Christopherson 2007; Dupuis & Prime 1996; Kim 2008; Pioch et al. 2009). Examples of norms relevant for retailers include: norms of government, norms of market, norms of family, norms of community, norms of nationalism, and norms of religion (Bianchi 2002; Bianchi & Arnold 2004). Several norms of government relate to the task environment of the retailer and refer to the laws, rules, regulations, and standards that retailers must take into account and comply with in order to operate in a given market in a host county (Huang & Sternquist 2007; Mutebi 2007). For instance, retail laws, rules, regulations, and labour standards are enacted by many governments and local authorities to control retail foreign direct investment.

For example, retailers like Wal-Mart and Carrefour when entering China, have to conform to government norms of ownership structure by forming joint venture with state-owned retail firm, and local Chinese retail firm that served specifically to establish their rights and qualification to conduct business (e.g., satisfy government equity ownership stipulations) in that Chinese market (Dacin, Oliver & Roy 2007). Yiu and Makino (2002) noted that such regulative institutional forces that emanated from government norms are codified in formal legal restrictions and sanctions can drive a multinational firm to adopt a joint venture, rather than wholly-owned-subsidiary, mode of market entry. An example of international retailer that was pressured by regulatory institutions was Wal-Mart in Germany.

For example, Wal-Mart was unable to practice the same localisation strategies and labour practices in Germany, as in the United States due to stringent planning and labour laws (Christopherson 2007).

Norms of market relate to competitive marketplace and retailers have to adhere to these norms in order to remain legitimate and competitive (Dacin et al. 2007). Norms of market refer to economic-based norms because of the economic oriented nature of retailing (Arnold et al. 2001). These norms refer to expectations of retailers to offer quality products, provide low price, offer wide product assortments, provide high service quality, and convenient location of stores (Arnold et al. 2001). Norm of family is also essential societal-base norms for retailing because of the family oriented nature of retailing (Arnold et al. 2001; Bianchi & Arnold 2004). These norms refer to expectations for retailers to deliver family services such as restrooms, attractive atmosphere, car parking lots, day care, and family wide merchandise. For example, in South Korea, Samsung-Tesco has to adapt to the fun-loving and family-oriented nature of South Koreans by upgrading its store layout to a “one-stop shop” which provides various facilities such as beauty salons, coffee shops, play areas, and art galleries (Coe & Lee 2006).

Expectation is also directed at safety measures for children and elderly and store access for physically disabled and trolleys. The institution of family is probably one of the oldest that can be found in any society. Norms of family are shown to vary across countries based on different forms of family structure, or on the size and structure of the immediate family (Bianchi & Arnold 2004). For instance, in Western European culture, the nuclear family structure consists normally of two spouses and a small number of children. Whereas in Africa and Middle East, and South East Asian and Latin American cultures, extended family structure comprises a patriarchal or matriarchal figure and a number of siblings who have spouses and children of their own. For instance, the study by Bianchi and Arnold (2004) showed that Home Depot failed in Chile because it did not comply with several salient family norms of retailing in Chile, especially, norms of family and relational exchange. In an extended family culture, family members are likely to be of greater prominence to consumers (Childers & Rao 1992).

Norms of community and social responsibility of international retailers have also received much attention in recent years. Many international retailers are increasingly being challenged to be socially and ethically responsible in order to gain support and legitimacy from consumer agencies and communities in which they operate (Handelman & Arnold 1999). International retailers are expected to support the communities that they serve through education, health, charities, and sponsorships. Thus, international retailers are under pressure to balance the mo-

tives profit maximization with social responsibility towards local communities in host markets. Activists and social movements are sources of new normative rules, as they turn their attention to organisational practices in conflicts with their norms and values (Davis, Diekmann & Tinsley 1994; Hoffman 1999).

Religion is another vital institution that shapes norms of retailing in a country. There exist different types of religions in a country, thus religion constitutes an important institution for retailers. A person's religious orientation can affect their taste and preferences for product and services, hence the type of retailer they are willing to patronise. For example, following the publication of the cartoon of Prophet Mohammed by Danish newspapers in 2006, Muslims around the world took to the streets and called for the boycott of Danish products. For instance, Iran formally declared an economic boycott of Danish pastries, and in Saudi Arabia major supermarkets posted notices saying "Danish products are not sold" over their cheese displays, and text messages were circulated to boycott Danish products. Prior research shows that religiosity is related to store patronage. McFelipe and Burnett (1990) found that consumer religious commitment was positively related to the importance placed by the consumer on sales personnel friendliness and assistance.

Another relevant institution for retailing is nationalistic attitudes that exist in some countries. Nationalistic attitudes can influence norms of retailing by placing emphasis on the value of local products and services along with the local workforce. For instance, at the height of the 2008 financial crises, American consumers were expected to be patriotic towards "Made in America" products. Coe and Lee (2006) noted that transnational retailers such Wal-Mart and Carrefour face strong nationalistic sentiments from South Korean consumers as Wal-Mart fail to adapt its retail formats and product-mix to match the taste and preferences of Korean consumers. International retailers face more stereotypes and standards (e.g. nationalism, xenophobia) from host social actors than do local firms. Coe and Lee (2006) stated, negative attitudes towards foreign discount chain stores are especially predominant outside the main cities of South Korea where many customers believe that foreign retailers are not only driving small local stores out of business, but are also transferring the profit derived from the local economy to their overseas headquarters.

Furthermore, the norms of relationship between suppliers, distributors, labour unions and retailers may differ across countries (Aoyama, 2007; Christopherson 2007; Deligonul et al. 2013; Dupuis & Prime 1996). Social norms in a host country may emphasize consultation and collaboration in decisions with implications for all firm stakeholders, including employee and for the society. For example, in

Germany, the relationship between employers and labour unions for pay and work arrangements is consultative (Christopherson 2007). Choosing to ignore these norms may result in failure to gain support and legitimacy from host employees and suppliers, distributors, and labour unions which can affect the performance of the international retailer. For example, in Germany, Wal-Mart's resources of autonomy clashed with the social norms and consultative practices of labour unions and employers to the firm's disadvantage in carrying out its strategies (Christopherson 2007). In the retail industry, the labour force represents the bulk of international retailers' operations. Thus, the international retailers' understanding of human resource norms such as work arrangements and systems of reward in the host country is important for access to competent and skill workforce (Coe & Lee 2006). Therefore, an international retailer that deviates from these norms of a host country may be viewed negatively and illegitimate (Christopherson 2007; Coe & Lee 2006). For example, a foreign retailer using performance-based compensation system may be seen as moral challenge to host firms used to seniority-based pay structure due to normative differences in human resource practices.

### 3.3 Institutional pressures

#### 3.3.1 *Regulatory pillar*

The regulatory pillar reflects the existing laws and rules in a particular national or regional environment to promote certain types of behaviours and restrict others. It mandates the socially unlawful aspects of an organization's actions. Regulatory institutions will use sanctions- rewards or punishments to control the behaviour of existing or future organizations (Scott 2001). The regulative pillar of the institutional framework lays out the ground rules for doing business, reflecting the laws and regulations of a region or a country and the extent to which these rules are effectively monitored and enforced (Scott 1995, 2001). One distinct means by which regulatory pressure is exerted on international retailers is through retail laws, rules, regulations, labour standards.

Host governments exert pressures on foreign retailers through attempts to protect existing retail structures via land-use, zoning restrictions on large retail format developments frequently favoured by multinational retailers, regulation of store opening hours, restriction on product imports, restriction on 'below-cost' selling, and so on (Coe & Wrigley 2007; Huang and Sternquist 2007; Wrigley & Currah 2006). For example, many governments have strict regulation on retail format (e.g. Large Scale Retail Store Law (LSRSL) in Japan), pricing (e.g. *Loi Gallant* in



France), store opening hours (e.g. Ladenschlussgesetz in Germany), store size requirement (e.g. *Loi Raffarin* in France), and land planning (e.g. PPG6 in England) (Huang & Sternquist 2007).

In some cases, these retail laws and regulations are introduced after the international retailer has entered the target market and thus, unprepared as how to cope and respond to this laws and regulations. In other instances, the liberalisation process or the opening of the host retail sector to foreign investment is very slow and indigenous chain are given undue advantage in securing good land in high-traffic areas, particularly in condensed areas of the city. For instance, in Malaysia, the government introduced ceiling on land use, and no new hypermarkets can be built within a 3.5 kilometre radius of housing areas of a city centre. In Thailand, new laws prohibit easy development of large-format retail outlets in inner-city areas (Mutebi 2007). These regulations are therefore directed at preventing further expansion of international retailers. Empirical evidence suggests that retail regulations restrict retailers' growth and expansion in foreign markets. An example of international retailer that was pressured by regulatory institutions was Wal-Mart in Germany. For example, Wal-Mart was unable to practice the same localization strategies and labour practices in Germany, as in the United States due to stringent planning and labour laws (Christopherson 2007). For instance, the country manager of Carrefour, Japan claimed that Carrefour could have continued its operation in Japan if they had successfully launched 15-20 stores in the first 5 years (Aoyama 2007).

Consequently, due to restriction on large scale store in residential area, Carrefour could not rapidly open many new stores as planned in Japan and capture the market (Aoyama 2007). The inability to secure suitable locations for their stores therefore placed Wal-Mart and Carrefour at great disadvantage against indigenous chains located in good spots. In South Korea, local governments restrict the entry of major foreign discount retailers into their local market areas through change in regulation and taxation (Kyung-Chool & Sough-Hun 2007). The significant cost and difficulties in land acquisition in Japan also contributed to derailing Carrefour's initial plans for rapid expansion into that market (Aoyama 2007). Similarly, in Germany, planning legislation prevents the development of stores of over 800 m<sup>2</sup> (8,610 ft<sup>2</sup>) sales area in locations which are not designated for retailing (Guy 2001). The company realised that German land use regulations are not favourable to their usual 'Big Box' type retail format development, which is key to Wal-Mart's 'pile it high, sell it cheap' approach (Christopherson 2007). In a new host country, pressures emanating from the regulative environment may also take the form of force, persuasion or an invitation to join or participate in collusion such as mandated trade union representation on corporate boards. For instance,

Wal-Mart is noted for resistance to unionize its' employees, thus unionization of workers was set as a condition for Wal-Mart's entry into China. Consequently, this study supports the view that *retail laws, rules, regulations, and standards in a host country exert pressures on the operations of multinational retailers in post-market entry.*

### 3.3.2 *Normative pillar*

The normative pillar introduces a prescriptive, evaluative and obligatory dimension into social life, stressing 'appropriate and thus, legitimate behaviours that are embodied in the form of national culture, value, norms, and beliefs in a given country (Scott 2001). Cross-national dissimilarities in societal-based and economic-based norms of retailing in the host country can affect the legitimacy and performance of international retailers. Economic characteristics of each country, such as the level of income per capita can shape the institutional norms of retailing in a country thus affecting shopping behaviour. The economic environment of a host country determines potential demand for industrial and consumer products. It reveals the standards of living and employment and income levels which, in turn dictate customer priorities in terms of the product they consider important, or necessary and the price they can afford and are willing to pay (Katsikeas, Samiee, Marios & Theodosiou 2006).

The economic environment of a host country also has effect on retailer's cost structure, and it affects the cost of raw materials, finish products, labour, overheads, selling price, and profit. The value customers attach to a product reflects their price sensitivity, which can influence purchasing behaviour. Thus economic-based norms of retailing in a host country include sensitivity to economic norms such as low price, quality, product assortments, convenience, and service (Arnold et al. 1996; Bianchi & Arnold 2004). Empirical evidence shows that dissimilarities in economic-based norms of retailing can affect retailer performance in new host environment (Gandolf & Strach 2009; Jin & Kim 2001; Kim 2008). Owing to cultural and environmental differences, consumers in different countries may have different shopping experiences even in the same type of stores (Kim & Jin 2002). Researchers have noted that consumer taste and preferences and shopping habits of Japanese and South Koreans consumers are different from US consumers and this has affected the performance of Wal-Mart and Carrefour in these markets (e.g. Aoyama 2007; Choi 2006; Coe & Lee 2006; Jin & Kim 2001; Kim 2008). The Japanese consumer has been referred to as the 'most difficult consumer to strategize, as they require high quality on everything, and are knowledgeable about products, service, quality and prices from around the world. They are ex-

tremely brand-conscious, and demand brand products even on groceries' (Nikkei Business 2005: 130, cited in Aoyama 2007). In addition, research also show that Japanese and South Korean consumers are sensitivity to price, seasonal changes in food items, love new products, and consider freshness and convenient shopping location as extremely important (Aoyama 2007; Choi 2006; Coe & Lee 2006; Jin & Kim 2003; Kim 2008). For example, Wal-Mart's global pricing strategy of "every-day-lower-price" (EDLP), which is successful in the U.S., had lack of strategic fit to the nature of South Korean and Japanese consumers (Aoyama 2007; Kim 2008). For instance, Aoyama (2007) pointed out that Japanese women are trained to screen through traditional high-low pricing models that offer limited-time sales and discounts to lure customers. Therefore, they find it cheaper to continue with the price comparisons and switching places to shop on the daily basis than to shop at Wal-Mart who sell an item 10% off every day when competitors are selling the same item at 20% off at their weekly sales events (Aoyama 2007).

Japanese, Chinese, and South Koreans also consider the freshness of food products very important, are willing to make frequent visits to the supermarkets, corner shops, and traditional wet-markets to buy in small quantities of fresh produce. Kim (2008) noted that Korean local retailers accommodate this preference for food product freshness by transplanting the traditional outdoor market into a convenient indoors format hypermarkets. Thus, local retail stores have live sea food, local delicacies and extensively use localisation strategies that fit with Korean consumers taste and preference. In contrast, Wal-Mart's merchandising mix offers varied items from dry goods to electronic and clothing, which is viewed by Koreans to be more westernized than those of local chains (Kim 2008).

In addition to economic-based norms, host customer values, beliefs, attitudes, education, and aesthetic preferences, along with conditions and pattern of product usage also exert considerable pressure on the operations of multinational retailers. Thus, societal-based norms of retailing reflecting the customs and traditions of consumers in a host country may reflect socio-cultural values such as aesthetic preferences, shopping habits, family, community, religion, communication, fun, and friendly service). As Huang and Sternquist (2007) pointed out, for a retailer who sells consumer goods, the differences in consumer preferences between the target customers from the home and host countries is probably one of the most important factors to take into account when making foreign market entry decisions. The socio-cultural nature of retailing requires the multinational retailers to adapt their offering to the host country. Research shows that Japanese and South Korean exhibit different shopping habits. They like to shop daily for such items as vegetables, noodles, and bread instead of weekly or biweekly, and buy items in

small quantities, given their small houses with limited storage and freezing spaces (Aoyama 2007; Kim 2008). American consumers on the other hand make less frequent trips to the shop and buy in bulk for longer storage. Aoyama (2007) in citing an executive in the food industry in Japan stated that ‘supermarkets substitute for refrigerators in Japan’ (Ishibashi 2004:2; in Aoyama 2007:279). Hence, present Japanese consumers, especially those faced with severe storage space in their homes, are known to practice ‘lean consumption’. In other words, consumers buy what they need when they need it and in the exact quantity required (Aoyama 2007).

This kind of shopping and consumption habit therefore went directly against the bulk-purchase-at-low-prices model transferred by Carrefour and Wal-Mart to the Japanese market. These cross-national dissimilarities in consumer taste and preferences and shopping habits therefore exert considerable pressures on the activities of multinational retailers. For example, Wal-Mart and Carrefour faced difficulties in matching their merchandize mix strategy, low price strategy, and global/standardisation strategy with Japanese and South Korean consumers taste and preferences, and shopping habits. For instance, Wal-Mart’s trade-mark ‘everyday-low-price’ (EDLP) strategy fail to appeal to Japanese and South Korean consumers who associate low price with low quality (Aoyama 2007; Kyung-Chool & Sough-Hun 2007; Kim 2008).

The consumer retail literature has studied the role of the institutional environment for international retailers (e.g. Arnold, Handelman & Tigert 1996; Arnold, Kozinets & Handelman 2001; Bianchi & Arnold 2004; Bianchi & Ostale 2006; Chan, Finnegan & Sternquist 2011; Duran & Wrigley 2009). This research suggests that both economic and societal norm of retailing is reflected in the retailer’s performance. For example, Kim (2008) pointed out that mismatched merchandising, assortment, and marketing that missed local needs and context were other factors that contributed to Wal-Mart’s failure in Korea. Similarly, Gandolf and Strach (2009) stated that product mix, promotion, and pricing strategies accounted for Wal-Mart’s failure in South Korea because the firm failed to recognise that South Koreans have different consumer preferences than North Americans do. Likewise, Coe and Lee (2006) noted that Carrefour suffered from slow growth in the South Korean market because “mass supply at low price” was not sufficient to attract Korean customers. *In order to explain normative pressures multinational retailer face in Russia’s market, this study will examine economic-base norms including price, quality, product assortment, and convenience. In addition, this study will examine societal-based norms including customer taste and preferences, shopping habits, family, and communication.*

Retail management practices such as human resource, marketing, supplier-retailer relationships management, distributional channel practices, and relationships with labour unions may also differ across countries due to national regulations. For instance, there may be 'a ceiling labour-standards effect' in which a transnational retailer finds it feasible to adapt its practices to suit countries where labour standards are lower than in its domestic market, but finds it difficult to adapt and compete in business environments with higher labour standards than in its domestic market. Particularly in international retailing, the inertia of institutional structures in a country is likely to hinder the application of new human resource practices such as recruitment, compensation, layoffs, and holiday entitlements whenever these practices are seriously at odds with existing legal rules and political conditions in a country. For example, in the case of Wal-Mart in Germany, Christopherson (2006, 2007) noted that because of strict planning regulations and labour laws, Wal-Mart was unable to practice the same wage practices as in the United States.

The nature of power relations between retailers and suppliers may also vary between social and spatial contexts. For example, in Japan, power imbalance between manufacturers and retailers does complicate Japan's distribution sector for transnational retailers like Wal-Mart and Carrefour (Aoyama, 2007). Similarly in South Korea, suppliers held large power over retailers (Coe & Lee 2006) and were unwilling to have open information exchange or electronic data interchange (EDI) system with Wal-Mart, and they held to extent, seller power as they had the choice of supplying to other major local retailers (Kim 2008). Research have shown that Wal-Mart's difficulties with the distribution channel and supplier network in Germany, Japan, and South Korea contributed to the firm's failure in those markets because the firm was unable to control the retail distribution system and its suppliers (Aoyama 2007; Coe & Lee 2006; Kyung-Chool & Soung-Hun 2007). *In order to explain normative pressures multinational retailer face in Russia's market, the present study will also examine societal norms of human resource management, supply system, and distribution channel in a host country in post-market entry.*

### 3.3.3 Cognitive pillar

Cognitive elements of institutions is the result of the voluntary adoption of shared social attitudes/beliefs that are broadly accepted as 'modern', 'rational' and 'the right thing to do' (Scott 1987, 1995). The cognitive domain refers to the widely shared cognitive structures by which actors of a given organizational field or societal entity interprets and makes sense of their world, and

is regarded as the internalized symbolic- representations of the world (Scott 1995: 40). The cognitive view insist that much of the coherence of organizations lies in those that have the power to reproduce and transform this template to portray a certain social identity (Scott 1995; Suchman 1995), that reflects collectivist (shared) interest rather than individual intentions. Cognitive institutions in the context of international retailing reflect the business systems and ownerships structures and retail store structures in a host country. International retailers entering a new host environment are subjected to the taken-for-granted business systems and ownership structures and retail store structures that exist in the host country, such as whether it has an equity or non-equity (contractual) base.

Whitley (1992) define business system as a distinctive configuration of market hierarchy relations that become established and institutionalised in a specific social context. The system is generally culturally and regionally peculiar. As with business systems, retail business structure and ownership structure also vary across countries. Thus, a country's retail sector may be dominated by business systems such as state-owned enterprises, family-owned conglomerates, cooperatives, public listed companies (PLCs), private limited companies, and mom-and-pop shops etc. For instance, Christopherson (2007) noted that German retail companies tend to be privately held; relying on self-investment rather than public capital markets for investment, and are embedded in networks of neighbourhood establishments. Similarly, Kim (2008) stated that the South Korean business system and ownership structure is dominated by family conglomerates called (chaebols) such as Samsung, Hyundai, Daewoo, LG, and SK.

This type of business structure therefore creates interconnected relationships that defines the ways that different groupings of social actors control economic activities and resources (Whitley 1999: 32), social actors being the providers of capital, customers and suppliers, competitors, firms in different sectors and employers and different kinds of employees (Whitley 1999). The extent to which firms are owned and controlled by families is also critical to the firms' network of relations with the business system. Hung (2005) noted that interconnectedness or embeddedness is gained through cross-equity holdings and long-term exchange relationships in the economy. Thus, the extent to which an international retailer is interconnected or embedded in a host institutional environment will be determined by the business systems and ownership structure it adopts in the host country. Different degrees of relationship define the extent to which firms are embedded in, and attend to, their institutional environments (Oliver 1996). Thus, transnational retailers expanding to foreign market can achieve embeddedness in the host institutional environment through mergers and acquisitions or entering into joint venture with a local partner.

Achieving embeddedness in host institutional environment is crucial for the success of international retailers (Coe & Lee 2006). Kim (2008) pointed out that business systems and ownership structures such as family conglomerates (chaebol groups) based on their family and crony relationships form a powerful networking system that makes it difficult for even global retailer like Wal-Mart and Carrefour to break in. For instance, not noticing such taken-for-granted business systems (chaebol groups) in South Korea, Wal-Mart and Carrefour entered that market through wholly owned subsidiaries (WOS) and therefore isolated themselves against the local chaebols (Kim 2008). As Coe and Lee (2006) noted, adopting the WOS entry approach therefore prevented Wal-Mart and Carrefour from embedding themselves and establishing relationship with critical resource owners such state government, local governments, suppliers, and distributors in order to gain access to resources needed for survival and growth.

Working with a local partner is viewed by several commentators (e.g. Coe & Wrigley 2007; Hitoshi 2003) as of crucial importance because of the market knowledge that is often transferred through these kinds of arrangements, accelerating the interconnecting or embedding process of the transnational retailer within local networks and improving its bargaining position with local governmental elites and suppliers (Currah & Wrigley 2004). Retail formats which are regulated and culturally rooted in national institutions vary across countries. Thus, a given retail format may need to be adapted to consumer environments in order to “fit” into the local situations (Pellegrini 1991). In some countries, the retail sector is dominated by small corner shop, neighbourhood shops, wet street markets, mom-and-pop shops, supermarkets, discount stores, hypermarkets etc. Indigenous retailers that operate modern retail chains often incorporate the traditional outdoor market or wet market elements into their retail formats to become something unique and legitimated by host social actors. Thus, the taken-for-granted nature of retail formats predominant in any host country can present significant challenges to international retailers. This is particularly the case when the international retailer transferred its retail format to the new host country without considering any adaptation. Choi (2003) pointed out that Korean local retailers learn a lot from system of low-priced retailing of the developed countries, but that was not just about copying discount stores, rather, they created the *Haarin* stores as a new retail format to suit the Korean situation. For instance, researchers have noted that indigenous discount stores accommodated Korean consumers’ cultural taste and preference for food product freshness by transplanting the traditional outdoor market (wet market) into a convenient indoors format in hypermarket (Coe & Lee 2007; Kim 2008). Whereby, local retail chains have live sea food, fish in tanks, local delicacies, and on-site packing services that replicate the features of traditional outdoor markets (Choi 2003; Coe & Lee 2006; Kim 2008). In contrast,

global retailers such as Carrefour and Wal-Mart were constrained by their global mode of operation and were late in developing formats to fit the Korean consumer, and therefore had difficulty competing in Korea (Choi 2003; Kim 2008).

Given that shopping is a fun activity in some countries, international retailers face cognitive pressures to understand these taken-for-granted norms. For example, in South Korea, Samsung-Tesco has to adapt to the fun-loving nature of South Koreans by upgrading its store layout and benchmarking against the spacious, light, and clean styles of the local department stores; the result of which is a “one-stop shop” providing various facilities such as beauty salons, coffee shops, play areas, and art galleries (Coe & Lee 2006). For instance, as pointed out by Coe and Lee (2006), “Tesco’s new seven story hypermarket in Youngdeungpo, south of Seoul, look anything, and have little in common with its’ domestic UK supermarkets”. Thus, in Tesco’s stores in South Korea, shoppers will be able to buy a pet iguana, pick an octopus in a tank of live seafood, visit the dentist or take ballet lessons, all of these which are not available in its’ UK stores (Coe & Lee 2006).

Similarly in Japan, Carrefour had problem with the structure of the retail format in that country. Because land is expensive in in Japan, most retail chains are small convenience or corner shops and department stores that sell everything under one roof. However, when Carrefour entered that market, the company insisted that operational format in Japan was one that conformed to the corporate global standards. In retrospect, these strategies cost Carrefour dearly (Aoyama 2007). Carrefour also insisted on retaining the ‘hypermarket’ model, which rely upon selling food and non-food items as well as various household appliances all on one floor for the convenience of the consumers. This strategy however, required acquisition of large plot of land which became difficult and extremely costly. Carrefour in the end decided to try with building multi-floor stores and shopping malls at the expense of intra-mall competition. In sum, after being forced to adjust its shelf design, shopping carts, distribution system, and floor area devoted to perishable items, Carrefour could not exercise effective differentiation from their domestic competitors in both appearance and prices. Prior researchers have attributed Wal-Mart and Carrefour’s failure in Japan and South Korea to their retail format (e.g. Aoyama 2007; Coe & Lee 2006; Kim 2008). Wal-Mart and Carrefour drew heavily on its intra-firm networks to offer the same standardise operation in South Korea and Japan as in other markets, devoting priority to lowering prices, retaining ‘global’ warehouse-style store layout, shelving, and décor (Aoyama 2006; Coe & Lee 2006; Kim 2008). *In order to identity and explain the influence of the cognitive pressures that affect retailer performance in Russia’s market, the present study will examine business systems including ownership structure and retail store structure including retail format/concept in a host country in post-entry.*



### 3.3.4 *Host constituent/social actor pressures*

Institutions do not have a life of their own and are thus created as well as enacted by social actors within a society (Douglas 1986). A constituent or a social actor is an individual or collectivity that both creates and responds to institutional norms (Piocch et al. 2009). Social actors create and conform to institutions and expect other social actors also to conform to the institutional norms as a way of maintaining social order in their society. Oliver (1991) postulated that organisations face a multiple of potential conflicting demands from a variety of social actors including the state, professions, interest groups, and the general public. In the context of international retailing, there are many different social actors or constituencies that exert pressure on multinational retailers. Examples of relevant constituents/social actors who tend to exert pressures on retailers operations include: consumers, suppliers, governments, competitors, shareholders, employees, trade unions, the media and communities (Arnold et al. 1996; Bianchi & Arnold 2004; Piocch et al. 2009).

From resource dependency perspective, multinational retailers are motivated by their own interests to minimise the uncertainty, conflicts and instability and multiplicity generated by social actors in the host institutional environment (Oliver 1991). The probability of resistance to institutional pressures is predictable from firm's dependence on constituents for resources. DiMaggio and Powell (1983: 154) hypothesized that conformity or isomorphism with institutional environment will be a function of the external dependence. The authors argued for "the greater ability of organisations to resist the demands of organisations on which they are not dependent." Similarly, resource dependency theorists have argued that an organization will be less likely to resist external pressures when it is dependent on the sources of these pressures (Pfeffer & Salancik 1978). Constituents on who multinational retailers depend for resources includes: governments, consumers, suppliers, employees, media, and the general public (Arnold et al. 1996; Bianchi & Arnold 2004; Piocch et al. 2009). The government in the host country is an important constituent/social actor for multinational retailers because it grants license to trade, creates laws, rules, and regulations concerning store location, store size and hours of operation which are reflected in the norms of retailing of each country (e.g. Huang & Sternquist 2007).

Host suppliers are also relevant source of support for multinational retailers. Except the international retailer plans to source all its products from outside, it will have to deal with domestic suppliers or manufacturers. For example, when Wal-Mart and Carrefour entered Japan and South Korea, they tried to force manufactures/suppliers to adopt the factory-direct model so as to cut cost by eliminating

the middlemen in the supply chain. Consequently, manufacturers/suppliers refused to do business with both companies and this affected their performance (Aoyama 2009; Larke 2003). Domestic suppliers provide support to foreign retailers in several ways including: willingness to sell goods to foreign retailers, timely delivery and acceptance of credit, and willingness to manufacture retailer-owned-private brands.

Host consumers are another source of dependency for retail transnational corporations (TNCs), and support from consumers is critical for the firm's survival. International retailers depend on consumers for store patronage which is one of the most important factors leading to internationalisation performance (Dupuis & Prime 1996). For instance, in Japan and South Korea, Wal-Mart and Carrefour failed to accurately determine the shopping habits and taste and preference of Japanese and Korean consumers and this affected consumer store patronage (Aoyama 2007; Larke 2003; Park 2005). Consumer patronage can be reflected in the consumer's intention to shop, consumer's store loyalty, and consumer's recommendations to others (Arnold et al. 1996). According to institutional theory, consumers will patronize retailers that develop retail practices which conform to the relevant norms of retailing for consumers (e.g. Bianchi & Arnold 2004; Pioch et al. 2009).

Host employees are also important constituents/social actors for international retailers because they participate and interact very much with consumers during the shopping process. For example, international retailers need the host employee's support to deliver quality service and maintain a certain image of the store and the brand (Cuevo-Cazurra, Maloney & Manrakhan 2007). International retailers also depend on host media for positive coverage of the firm's activities (Elg et al. 2008). The media reflects the views of the general public, thus, international retailers' structures and practices must conform to the expected norms of retailing as the general public view as appropriate. The local media assumes a monitoring role by reporting illegitimate actions of foreign retailers which can affect public support (Rotting & Reus 2009). For example, in expanding to Russia, IKEA used press contacts to further inform consumers and the society about the company's values and missions (Elg et al. 2008). The media can also be a source of negative attack on retail transnational corporations (TNCs). For instance, in 2001, Wal-Mart Germany was the focus of concerted attack from the press by unions, the employer or the trade association membership, and farmers who attacked the company's 'every-day- low- prices' strategy, and for the refusal to conform to trade union requirements (Christopherson 2007).

### 3.3.5. *Previous research applying institutional theory in international retailing*

While institutional theory is relatively new theory as related to international retailing, its incremental power is evident (Huang & Sternquist 2007). Recently, researchers have started to apply institutional perspective to explain the internationalisation process (e.g. Arnold, Handelman & Tigert 1996; Arnold, Kozinets & Handelman 2001; Bianchi & Arnold 2004; Cao & Pederzoli 2013; Chan et al. 2011; Deligonul et al. 2013; Huang & Sternquist 2007; Pioch, Gerhard, Fernie & Arnold 2009). Among the topics researched include entry mode strategies (Huang & Sternquist 2007), supply network relationships (Deligonul et al. 2013), regulatory regimes (Mutebi 2007), retail store patronage (Arnold et al. 1996; Arnold et al. 2001; Pioch, et al. 2009), retailers' strategic responses to institutional pressures (Cao & Pederzoli 2013) and retail performance (Bianchi & Arnold 2004; Chan et al. 2011; Dupuis and Prime 1996; Duran & Wrigley 2009; Evans et al. 2008).

Applying the concept of institutional semiotics and organisational legitimacy, the work by Arnold et al. (2001) examined the impact of Wal-Mart's advertising flyers on the firm's growth in its domestic marketplace, the United States of America. From this perspective, a retail firm and its environment are seen to interpenetrate each other to the extent that a retailer's actions reflect the economic and cultural-moral norms of the environment in which it is established. They view the environmental norms as of two forms: task and institutional. Task norms reflect the organisation's economic environment to which it responds with functionally related performative actions of convenient location, competitive prices and wide assortments. Institutional norms reflect institutional actions such as adherence to norms of family, community, religion, and nations.

The findings of their study show that institutional semiotics revealed numerous meanings in a Wal-Mart advertising flyer. Beyond a promise of deep savings on a wide assortment of merchandise, the text and illustrations in the flyer reflect a rich blend of family, community and national norms. The semiotic analysis of Wal-Mart flyer provided an insight into the ways this particular retail giant achieves isomorphism, promises a more creative ways to legitimate itself among its relevant constituents. The study by Arnold et al. (1996) considers how symbolic acts such as support of community charities, front door greeters, and patriotic displays support organisational legitimacy and retail store patronage. The findings of their study show that being identified as having a strong community reputation not only directly affect store choice, but also moderated the effect of the other determinant price, value, and location attributes.

The study by Bianchi and Arnold (2004) applied institutional theory drawing on DiMaggio and Powell (1983) and Scott and Meyer (1983) to assess the effect of the social and technical environment on the success of the American retailer, Home Depot in the Chilean market. They attributed the firm's failure in that market to lack of legitimacy from host social actors. In other words, Home Depot lacked legitimacy in Chile because they failed to offer a range of merchandise and store atmosphere demanded by the traditionally family shopping activity, and because their management team did not embed themselves in the broader social network. The findings also show that indigenous chains had anticipated and responded to Home Depot's source of competitive advantage.

The study by Chan et al. (2011) examined firm and country-level drivers of retail performance. They examined the impact of economic characteristics (i.e. level of development, national income, population, and country risk) of the first host country entered and firm level resources and retail portfolio management capability (RPM)- retailer's knowledge of business models, systems and processes related to operating one or more retail formats, and international marketing portfolio management (IRPM) capability- international experience and rate of expansion on two measures of performance (i.e. return on investment and sales growth). The findings of their study produced mixed results in the relationship between IRMP capabilities and performance. They found that international experience is negatively related to sales growth. The findings of their study show that these factors are able to explain firm level variations in sales growth, but not in return on investment (ROI). Their findings show that while retailers' sales growth is positively related to expansion speed, it is negatively related to a number of retail formats and number of countries of operation. Moreover, retailers who decide to expand into a host country that is less developed, with relatively high disposable income, tend to be more successful than others. The authors acknowledged that mixed results suggest there is a gap between theory and measurement in this area and called for further qualitative study to develop more precise measures. The study by Pioch et al. (2009) used micro-constructs of institutional theory to interpret and conceptualise micro-level consumer data to examine Wal-Mart's varying performance in Europe and eventual exit from the German market by singling out the role of consumer acceptance of Wal-Mart's market propositions. The findings of their study show that in the German context, the institutional theory approach to explaining difficulties clearly predict market failure and exit. They noted that in the United Kingdom (UK) market, no clear patterns between retailers' conformance to salient patronage behaviour and market position could be established. They suggested that constructs of institutional theory were more likely to predict and explain market failure than success.

Evans et al. (2008) also propose a conceptual model of the psychic distance-organisational performance relationship that incorporates organisational factors (international experience and centralization of decision making) entry strategy, retail strategy, and performance. The sample of their study consisted of randomly selected non-food retail operations. The findings of their study suggest that when entering psychically distant markets, retailers should adopt low-cost/low-control entry strategies and adapt their retail strategy to a greater extent than in psychically close markets. On the other hand, the authors find that such strategic approach have negative effect on performance. They find that international experience, psychic distance, entry strategy, and retail strategy adaptation are significant drivers of organisational performance and factors that determine critical success in international retailing. One major limitation of this study is that retail strategy focuses solely on marketing-mix elements (product, price, merchandise quality, and promotion) to the neglect of the role of social actors such as regulators, customers, suppliers, employee, and labour unions play in accepting the retailer's offerings, structures, and practices. This study also neglects the pressures the host institutional environment exerts on international retailers; rather, it focusses on management's perception and understanding of cultural and business differences.

The study by Duran and Wrigley (2009) examined the institutional and economic factors determining the performance of transnational retailers through comparative analysis of Wal-Mart and Carrefour's operations in different markets. They develop a conceptual framework explaining the heterogeneity of retailer performance in international markets, and three types of explanation are offered: the timing and mode of market entry and subsequent expansion, factors that allow the application of upstream market power, and sensitivity to issues of labour organisations and standards. The two retailers examined are found to be differentially impacted by those factors, indicating the need to consider a process of institutional hybridization as central to the explanation of transnational retail performance.

Dupuis and Prime (1996) used the concept of business distance to develop a model to analyse key success/failure factors of the French hypermarket concept in the United States of America (USA) and Taiwan. The findings of their study indicate that a business distance between the domestic and target markets create a "prim effect" on organisational competitive advantages. They attributed failure of the French hypermarket concept in the USA to difference between United States (US) and French human resource management, one-stop-shopping concepts, narrow product assortments, price competition, logistic crises, and negative pressure exerted by unions and consumer association on the company in some locations. The authors indicate that the culture of a country affects all these dimensions which may significantly affect the retail firm's initial competitive advantage. The key

factors in the success of Carrefour-Taiwan were attributed to the alliance with a local partner, fragmented supplier networks, and weak competition.

The work by Deligonul et al. (2013) draws on Scott's (2001) three pillars of institutional influence- regulative, normative, and cognitive to examine the exposure of the members of supplier networks to two layers of social influence namely, influence of a global character, and forces emanating from its indigenous institutional environment. The findings of their study show how a retailer handles and transforms global forces and forces emanating from its indigenous environment into an idiosyncratic asset which is costly to copy for rivals and thus provides a unique competitive advantage to the firm. The study by Huang and Sternquist (2007) introduced institutional theory by drawing on regulative, normative, and cognitive dimensions of institutions as a complementary framework to explain international retailers' foreign market entry choices and suggest propositions for future research. They argue that the regulative, normative, and cognitive dimensions of institutions in a host country can influence foreign market entry choices.

Finally, a more recent work by Cao and Pederzoli (2013) analyse the international retailers' strategic responses to the institutional environment in emerging markets. The findings of their study show that international retailers adopt variety of strategic response choices in response to pressures from the institutional environment. While the work of Deligonul et al. (2013), and Cao and Pederzoli (2013) are the only work that draws specifically on Scott's (1995, 2001) three pillars of institutions- regulative, normative, and cognitive in examining international retail expansion, the study by Deligonul et al. (2013) focuses on supplier network relationships, while the work by Cao and Pederzoli (2013) examined retailers' strategic responses to institutional environment by applying the framework provided by Zimmerman and Zeitz (2002). Although the work by Deligonul et al. (2013) and Cao and Pederzoli (2013) help in understanding the influence of the institutional environment on the operations of international retailers, they fail to address how responses to institutional pressures impact on performance. Thus, previous work applying institutional theory, particularly Scott's (1995, 2001) three pillars of institutions fall short of explaining the pressures the institutional environment of emerging markets such as Russia exert on the operations of international retailers, and the effect on performance. Consequently, this study believes that utilising institutional theory and analysing the pressures that international retailers face in a new host environment and the strategies they pursue in response to these pressures and the effect on performance in post-market entry may further aid in understanding the retail internationalisation phenomenon (Cao & Pederzoli 2013). For example, Dunning & Lundan (2008: 573) stated "we believe that an institutional approach, that tries to bridge both the macro and micro levels of analysis,

and that encompasses both formal and informal institutions, offers a promising way to advance our understanding of different forms of the contemporary multinational enterprise.”

### 3.4 Strategic responses to institutional processes

The theoretical constructs of institutional isomorphism was originally developed to illustrate the effects of the institutional environment on organisations, thereby viewing the environment-organisation relationship as unidirectional. Consequently, it has been criticized for deemphasising the role of active agency and resistance in organisation-environment relations (Oliver 1991). Acknowledging institutional pressures does not mean that organisations have to accept passively all demands that are placed on them. Recently, theorists have sought to renew attention to interests and agency (e.g. Mezais 1990; Oliver 1991; Goodstein 1994). They argue that complete and uncontested institutionalisation is rare and that interest and agency play a role in determining how organisations adapt to their institutional environments.

It was recognised that institutional environments are not “iron cages” (DiMaggio & Powell 1983), but instead, organisations may be expected to exercise “strategic choice” (Child 1972) in relating to their institutional environments and responding to institutional pressures (Scott 1991). Oliver (1991) proposes five categories of strategic responses that organisations could pursue in response to institutional pressures. She argued that these responses varies with respect to the level of resistance to those pressures from passive to active and labelled them *acquiescence*, *compromise*, *avoidance*, *defiance*, and *manipulation*. Acquiescence is a passive strategy because; in using it a firm agrees to conform to institutional pressures. In other words, acquiescence means obeying the rules, compromise is a chosen response to conflicting institutional demands whereby organisations try to balance, pacify, or bargain with those exerting the pressure. Balancing strategies try to obtain parity between multiple stakeholders or internal interests. When organisations partially meet the expectation imposed on them, they try to appease their constituents. A more active engagement in compromise is bargaining, which is the attempt to obtain certain concessions from external parties. To prevent the necessity of conformity, avoidance is selected by organisations. It consist concealment tactics, buffering, and the more striking, escape.

Concealment aims to disguise the non-conformity in a form of “window dressing”. By buffering, organisations attempt to reduce the extent to which conformity is measured by decoupling its technical activities from external control or eval-


uation. Exit strategies lead to the giving up of domains experiencing the pressure. Defiance refers to a more resisting strategy, compromising, dismissing, challenging, and even attacking. Whereas, dismissing refers to the organisation's strategy to ignore rules, challenging denotes exercising active influence on the making of rules or, as with the last mentioned, even attacking them. The most active response is manipulation, with its objective to actively change the expectation that the external pressure groups have of the organisation. It primarily involves attempts to influence institutional values and beliefs and tactics to actively influence control over resources (e.g. Gstraunthaler 2010).

Oliver (1991) also presented tactics within each of these five types. The framework presented by Oliver (1991) also included five antecedents or factors driving strategic responses- cause, constituents, contest control, and context. These factors captured the following questions: "cause- why is the organisation being pressured to conform to institutional rules or expectations, constituents- who is exerting institutional pressures on the organisation, content- to what norms or requirements is the organisation pressured to conform, control- how or by what means are the institutional pressures being exerted, context- what is the environmental context within which institutional pressures are being exerted (Oliver 1991: 160). This is depicted in Table 2. The first three columns of table produce Oliver's typology.

In discussing each of the institutional antecedents or factors of strategic response in more detail, Oliver (1991) refers to cause as set of expectations, or purposes behind the institutional pressures for conformity. She suggested that the reasons for institutional pressures can be classified into two categories: legitimacy or social fitness, and efficiency or economic fitness. In the context of international retailing, the pressure to gain legitimacy or social fitness and economic fitness requires that retailers adhere to regulatory, normative, and cognitive norms of retailing in a host country. Regulatory legitimacy involves international retailer adhere to retail law, regulations, rules, standards, and expectations created by the host governments, accreditation associations, and professional bodies.



**Table 2.** The continuum of managerial responses to institutional pressures (source: adapted from Oliver 1991: 152).

Level of resistance to institutional pressures	Strategies	Tactics	Example	Examples for this study- retail firms dealing with retail regulations and management practices
<b>Passive</b> 	Acquiescence	Habit Imitate Comply	Following invisible taken-for-granted norms Mimicking institutional models Obeying rules and accepted norms	Retail NTCs decide to follow the letter and the rules of government and local requirements. They also consider following international guidelines
	Compromise	Balance Pacify Bargain	Balancing expectations of multiple constituents Placating and accommodating institutional elements Negotiating with institutional stakeholder	Retail TNCs negotiate with their regulators to achieve a mutually agreeable solution that meets the purpose of the regulation at a minimal cost to the organisation.
	Avoidance	Conceal Buffer Escape	Disguising nonconformity Loosening institutional attachments Changing goals, activities, or domains	Retail TNCs decide that the possibility or the cost of responding to the prospective institutional requirements is not worth the cost. Therefore, Retail NTCs may engage in "window dressing" ritualism, ceremonial pretence, or symbolic acceptance of institutional norms, rules or requirements by activities that not real, but seem real, and therefore seem to comply with established norms.
	Defiance	Dismiss Challenge Attack	Ignoring explicit norms and values Contesting rules and requirements Assaulting the source of institutional pressures	Retail TNCs decide the source of the pressure does not have the resources or the political will to enforce the regulation. Firms deal with request through, attorneys, press releases, and press secretaries, or spokespersons. Eventually, the retail TNCs' attorney may have to battle with the regulator's attorneys.
<b>Active</b>	Manipulation	Co-opt Influence Control	Importing influential constituents Shaping values and criteria Dominating institutional constituents and processes	Retail TNCs try to influence the letter of the regulation. They may do this manner directly with the regulator, or with the legislators that drafted the laws. The use trade associations to influence public perceptions of its industry and to lobby government regulators for changes in the institutional rules which its members are advised or required to conform.

In addition, international retailers face normative pressures for economic fitness, i.e., pressures to make the firm more economically acceptable to host constituents. Pressure for normative economic and social fitness include retailer adherence to economic-based norms such as low price, convenience, wide assortment, quality as prescribed by consumers. Social fitness include retailer adherence to

societal-based norms such as family, community, excitement, fun, and friendly service, communication, and nation (Arnold et al. 1996; Bianchi & Arnold 2004; Pioch et al. 2009). One can therefore assume that when a retailer expect that adherence to regulatory, normative, and cognitive norms of retailing will ensure support and legitimacy from host social actors (governments, consumers, suppliers, employees), acquiescence will be the most probable response to regulatory, normative and cognitive pressures.

Moreover, a key factor in predicting the nature of strategic responses is institutional *constituents*, *i.e. who* exert institutional pressures. Oliver (1991) postulated that organisations face a multiple of potential conflicting demands from a variety of constituents. A constituent or a social actor is an individual or collectivity that both creates and responds to institutional norms (Pioch et al. 2009). In the context of international retailing international retailers constituents who tend to present conflicting demands on international retailers include: consumers, suppliers, governments, competitors, shareholders, employees, trade unions, the media and local communities (Arnold et al. 1996; Bianchi & Arnold 2004). Constituents exert pressures on international retailers in the form of multiplicity in their demands and expectations of the retailer.

For instance, a consumer will expect the retailer to demonstrate “customer norms” (low price, quality, wide assortment, convenient location, friendly service etc.), a community will expect a retailer to demonstrate “community norms” (support local charities, protect the natural environment, use local labour, use local supplier), an employee will expect a retailer to demonstrate “employee norms” (hire fairly, pay fair wages, provide good working condition, provide training and career development), a supplier will expect a retailer to demonstrate “supplier-retailer relationship norms” (trust, support, collaborative mutual partnerships), and a government will expect a retailer to demonstrate “accountability norms” (respect retail laws, keep books of account, report all revenue, pay taxes to the government). For example, in Japan and South Korea, Wal-Mart and Carrefour were unable to response to consumers demand for fresh foods, quality products, convenience shopping, and entertaining shopping atmosphere (Aoyama 2007; Coe & Lee 2006; Kim 2008).

Unilateral conformity to pressures from multiple constituents is unlikely because the satisfaction of one constituent often entails the organisation to disregard or defy the demands of another (Pfeffer & Salancik 1978: 27). Because passive acquiescence in institutional demands is difficult to achieve when acquiescence to one demand prevents the ability to conform to alternative constituents with conflicting expectations, acquiescence is most likely to occur under the condition

when multiple conflicting demands from constituents/social actors is low. On the other hand, when multiplicity of demands from constituents in a host country is high, compromise, avoidance, defiance, and manipulation strategies are all more likely responses to pressures from host constituents. The probability of resistance to institutional pressures is also predictable from retailers' dependence on the constituents who exert pressures. DiMaggio and Powell (1983: 154) hypothesized that conformity or isomorphism with institutional environment will be a function of the external dependence.

Constituents on whom retailers depend for resources and support and legitimacy include: governments, consumers, suppliers, employees, media, and the general public. One can therefore postulate that in a host institutional environment where the retailer is highly dependent on host constituents for resources, support, and legitimacy, acquiescence may be the most likely strategic response to institutional pressures. Partial conformance i.e. compromise is also a possible response when dependence on constituents is high because international retailers typically have interest they want to promote or protect and dependency is seldom one way. Even in institutional environment where retail is heavily regulated, international retailers bargain and negotiate with governments, labour unions, and suppliers on the terms of compliance. Thus, as dependence on host constituents decreases, avoidance strategy becomes a more reasonable substitute for international retailers. Similarly, when retailers' dependence on host constituents for resources, support, and legitimacy is low, both defiance and manipulation represent small risks to the retailers' interests because the international retailer is no longer controlled by one or a small number of constituents for resources and social acceptance or legitimacy.

The *content* of institutional pressures predicts also organisational responses. According to Oliver (1991), content represent the extent of the consistency of institutional pressures with organisational goals. International retailers are likely to resist institutional pressures when they are inconsistent with organisational goals and/or when the conformity to institutional pressures leads to loss in organisational decision-making freedom (Oliver 1991). In other words, international retailers can selectively comply with those institutional pressures that are in line with their strategy and don't threaten their independence. For instance, international retailers entering emerging economies may be pressured by the host constituents to select localisation strategy even though the firm would prefer a standardisation or differentiation strategy. Therefore, the international retailer is likely to try a strategy to resist the pressure from the host consumers, suppliers and labour unions as an institutional constituent.

*Control*, the means by which institutional pressures are imposed is another factor predicting organisational response. Oliver (1991) defined institutional *control* as “the means by which pressures are imposed on organisations” (p.168). She argued that the higher the degree to which a regulatory agency used prescriptive approaches, the more likely a firm would choose less active strategies. In the context of retailing, one distinct means by which governments impose pressure on international retailers is through retail laws, rules, regulations, and standards. For instance, many governments have strict regulation on retail format (e.g. Large Scale Retail Store Law (LSRSL) in Japan), pricing (e.g. *Loi Gallant* in France), store opening hours (e.g. *Ladenschlussgesetz* in Germany), store size requirement (e.g. *Loi Raffarin* in France), and land planning (e.g. PPG6 in England) (Huang & Sternquist 2007).

Consequently, one can assume that when the consequence of nonconformity to host retail laws rules, and regulations is highly punishable and rigidly enforced, acquiescence would be the most probable response to government pressures. Retailers may also attempt to avoid retail laws, rules, regulations, and standards by reducing the degree to which they are scrutinised by regulatory authorities. International retailers are also most likely to attempt active defiance and manipulation when the degree of legal compliance is low. In addition, when the degree of scrutiny and sanctions for noncompliance with retail law and regulation in a host country is more moderate, international retailers may seek compromise on the condition under which they will comply by negotiation terms of compliance.

Finally, the environmental *context* predicts the likelihood of organisational resistance to institutional pressures. Oliver (1991) defined *context* as the condition within which institutional pressures are exerted on organisations. A country’s business system and ownership structure also imposes pressure on organisations. Whitley (1992) define business system as a distinctive configuration of market hierarchy relations that become established and institutionalised in a specific social context. The system is generally culturally and regionally peculiar. As with business systems, retail business structure and ownership structure vary across countries. Thus, a country’s retail sector may be dominated business systems such as state-owned enterprises, family-owned conglomerates, cooperatives, public listed companies (PLCs), private limited companies, and mom-and-pop shops etc. For instance, Christopherson (2007) noted that German retail companies tend to be privately held; relying on self-investment rather than public capital markets for investment, and are embedded in networks of neighbourhood establishments. For instance, Kim (2008) pointed out that business systems and ownership structures such as family conglomerates (*chaebol* groups) based on their family and crony relationships therefore form a powerful networking system that makes it difficult

for even global retailer like Wal-Mart and Carrefour to break in. Similarly, evidence shows that the South Korean business system and ownership structure is dominated by family conglomerates called (chaebols) such as Samsung, Hyundai, Daewoo, LG, and SK. (Kim 2008). This type of business structure therefore creates interconnected relationships that defines the ways that different groupings of social actors control economic activities and resources (Whitely 1999: 32), social actors being the providers of capital, customers and suppliers, competitors, firms in different sectors and employers and different kinds of employees (Whitley 1992). For example, not realising such interconnectedness in business systems and ownership structures in South Korea, Wal-Mart and Carrefour first entered that market by wholly owned subsidiaries (WOS), and therefore isolated themselves against the local chaebols (Kim 2008).

Accordingly, faced with the need to be interconnected or embedded in the business systems and networks of a host country, a retailer is more likely to acquiesce to the host business systems and structures when this environment is highly interconnected. Compromise and avoidance strategy (e.g., negotiating ownership structures such as JVs) or avoiding the adoption of host business systems and ownership structure is more likely to occur in highly interconnected business environment because the close network among firms requires inter-organisational coordination and negotiation on the condition and extent of resource exchange (Oliver 1991). Five of the major studies that have tested Oliver's framework include Goodstein (1994), Ingram and Simon (1995), Etherington and Richardson (1994), Clement and Douglas (2005) and Karhunen (2007). Ingram and Simons (1995) and Goodstein (1994) examine only four of the five strategic responses, and not taking account of manipulation. These two studies show that the organisations in the research sample used the four responses advocated by Oliver (1991) and that prescribed institutional pressures influenced selection of strategic responses.

The problems addressed in each study was the organisation's responsiveness to work and family issues, which address the organisations' responses to the need to balance the demands of work and family for their employees. Goodstein (1994) posits that organisational response to institutional pressures is essentially a strategic action that depends on the strength of the pressures and the mobilisation of organisational interests. Etherington and Richardson (1994) applied all the five elements of Oliver's (1991) typology of strategic responses to institutional pressure to university accounting education. They contended that one could view the five strategies along a two-dimensional level of activity (active to passive) and pattern of resistance and accommodation (negative to positive). The authors found that the five strategies loaded on to three factors-passive, active-positive,

and active-negative. One major contribution of their study was the combination of compromise and manipulation into the active positive category. Similarly, Clement and Douglas (2005) evaluated Oliver's full model in the steel industry. The results of their study which partially replicated the three earlier studies provide general support for Oliver's framework. In addition, the study by Clement and Douglas (2005) identify support for this typology in areas where earlier studies provided mix results. An important finding of the study by Clement and Douglas (2005) was that firms that cooperated with others in their industry favoured less active firm strategies (acquiescence and compromise) and were less inclined to pursue the actively resistant strategies of avoidance and defiance. The firms in their study considered the strategy of manipulation comparable to acquiescence and compromise.

The study by Karhunen (2007) applied Oliver's (1991) full model in the hotel industry to examine the way in which transition from command to market economy affects institutional isomorphic pressures towards strategic and structural homogeneity within an organisational field, and how different types of enterprises respond to these pressures. The findings of her study identified variety in strategic responses to structures and practices under compromise, avoidance, acquiescence, manipulation, and defiance in relation to field-level institutional processes between foreign and local enterprises, and showed how these responses converge over time.

Empirical evidence on multinational enterprise subunits' responses to institutional pressures shows that host environmental pressures influence multinational enterprise strategies and are context-specific. For example, Karhunen (2007) linked the question of institutional duality to the transformation from planned to market economy to the hotel sector and showed variation in the adoption of structure, and practices, and strategies among foreign-managed, former state and new Russian managed hotels. Likewise, Kostova and Roth (2002) identified different levels of practice adaptation ranging from active to ceremonial adaption, which varies along across foreign subsidiaries, along with the institutional profile of the host country, and the relational context of the multinational enterprise.

Prior research has shown that practice adoption versus adaptation varies along with the nature of the practice itself, the institutional context of the host country, and operation mode (e.g. Karhunen 2007). For instance Gooderham et al. (1999) attributed cross-country variation in the adoption of human resource practices, even for geographically close countries to differences in institutional environment. In short, when viewed against the institutional context of transition economies, the issue of strategic responses to institutional pressures merits special at-

tention. First, it appears that a fundamental assumption in Oliver's (1991) typology is stability in the institutional environment, where the five institutional antecedents are accurately defined. In order to conform or resist, a firm should not only encounter well-defined set of pressures, but also have clear organisational goals against which the different responses can be assessed. This is hardly the case in transition economies where business systems, retail store structure and retail infrastructure is underdeveloped due to change from command to market economy.

Although the typology incorporates environmental uncertainty and conflicting institutional pressures on the field-level, it does not discuss the role of that wider (i.e. national) institutional environment would have in shaping field-level institutional pressures. Therefore, the application of Oliver's (1991) typology in this study serves two purposes. First, the typology provides conceptual tools to empirically examine strategic responses of subsidiaries of Finnish multinational retailer in Russia's market, and second, the outcomes of this examination will contribute to the development of this typology by identifying peculiarities of the Russian context in terms of institutional pressures in relation to international retailing and organisational responses. Second, due to the multiplicity and complexity of legitimating environments, and intra-organizational complexity and diversity, and ambiguity of the host institutional environment, multinational retailers are likely to engage in actor-specific manipulation and negotiation of their status and interest aimed at social construction of their legitimacy.

Thus, the framework by Oliver (1991) is likely to be relevant in relation to addressing the research question of this study. Oliver's (1991) framework offers a conceptual basis for exploring the diversity of business strategies of Finnish multinational retailers in Russia's market. In addition to identifying different strategic responses, the analysis also focuses on the dominant features of the field-level institutional environment that accounts for them. Oliver's (1991) theoretical ideas therefore provides basis for exploring that as well. *This study will therefore consider all the five strategic responses to institutional pressures – (acquiescence, compromise, avoidance, defiance, and manipulation) outlined by Oliver (1991) and in analysing how subsidiaries of Finnish multinational retailers respond to regulatory, normative, and cognitive institutional pressures they face in Russia's market.*

### 3.5 Retailer legitimacy

Organizational legitimacy has been defined as the acceptance of the organisation by its environment (Dowling & Pfeffer 1975; Meyer & Rowan 1976). Suchman (1995: 574) formally defined legitimacy as “*a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions*”. Most institutional theorists agree that “organisations require more than material resources and technical information if they are to survive and thrive in their social environment” (Scott, Ruef, Mendel & Caronna 2000: 237). International retailers require the support of relevant social actors such as consumers, suppliers, employees and trade associations in the host country in order to perform better. Retailers’ performance in the host country can therefore be enhanced by gaining legitimacy from host social actors. Borrowing from general definitions of organisational legitimacy (Suchman 1995), *retailer legitimacy* in this study is defined as *the general perception that a retailers’ economic and societal norms of retailing, retail management practices and retail structures (format/concepts) is deemed desirable, proper, or appropriate for a social actors such as consumer, employee and supplier to accept or patronize*.

Based on institutional theory, social actors within the field of retailing in the host country will legitimate an international retailer based on how well the retailer practices and structures conform to the institutional norms that are relevant for that social actor. According to Scott (1995), organisations can acquire legitimacy by three forms- regulative legitimacy, normative legitimacy, and cognitive legitimacy. Governmental bodies (the state) are the first group of actors that play a vital role in legitimation and through regulation try to ensure utility and responsibility of organisations (Hybels 1995). Regardless of whether regulatory institutions may facilitate or hinder retail internationalisation, one can say international retailers conform to regulatory restrictions, for example, by choosing certain retail formats, or unionisation of workers for reasons of self-interest that include fear of sanctions and related costs of losing access to various resources necessary for survival and success. For instance, adherence to retail laws and regulations helps the retailer to secure resources, influence, and power (e.g., Meyer & Rowan 1977), and retailers that resist retail laws and regulations are considered illegitimate. The resulting legal sanctions can for example, create additional administrative costs for firms and loss of access to necessary resources (DiMaggio & Powell 1983; Scott 1995). Thus, a retailer achieves regulative legitimacy by adhering to host retail laws, rules, and regulations. The public, as the second constituency, controls resources on the demand side as consumers, but perhaps even more importantly on the supply side as a source of labour, goods, and capital (Hybels



1995). The financial community provides very sophisticated evaluations of new and established organizations “based on collective assessments of future performance” (Hybels 1995: 244) and thus plays a very important role in the legitimation process. Normative legitimacy is achieved by the international retailer through conformance to economic-based and societal-based norms of retailing such as low price, convenience, assortment, quality, family, excitement, community, and friendly service (Bianchi & Arnold 2004). Normative legitimacy can also be achieved by the international retailer through adherence to host country retail management practices such as human resources practices (e.g. fair wages), supplier-retailer relationship management practices, and community norms such as giving to charity, and ethical social responsibility. Cognitive legitimacy is achieved by the retailer adopting ownership structures that facilitate embeddedness in host business and institutional networks, and adapting retail formats to fit host cognitive retail structures.

Based on institutional theory, social actors within the field of retailing in the host country will legitimise international retailers based on how well their retail practices conform to the institutional norms that are relevant for that social actor. Thus, governments will support and legitimise international retailers based compliance to retail laws, rules, regulations and standards. Suppliers will legitimate a retailer based on fair or mutual beneficial relational exchanges. Employees will legitimise a retailer that offer good working condition and observes fairness in hiring, training, and rewarding employees. Consumers will legitimise a retailer based on low price, wide assortment, service, quality, and convenience. Communities will legitimate a retailer that is ethically and socially responsible.

Additionally, shareholders and parent office managers will legitimise a subsidiary retail store based on its adherence to norms of profitability and performance. Because the institutional perspective views social actors as interconnected, hence, overall retailer legitimacy can be negatively affected if the retailer does not comply with the norms of retailing required by social actors in the host country. Legitimacy thus plays key role in allowing firms to access critical resources, such as technology, economic and social capital, markets, partners, and customers (Aldrich & Fiol 1994; Zucker 1987). Legitimation theory posits that for any organisation to survive, it must be supported by its relevant constituents. In a study of public and private day care centres, Baum and Oliver (1991) found those day care centres that build legitimating interorganisational linkages to well-respected community and state organisations had significantly higher survival rates. Prior research suggests that adherence to host socio-political regulatory and economic-based and societal-based norms of retailing enhances retailers’ legitimacy (Arnold et al. 1996; Arnold et al. 2001; Bianchi & Arnold 2004; Pioch et al. 2009). More-

over, Handelman and Arnold (1999) suggest that retailer legitimacy is an appropriate measure of business performance in itself, because it requires both economic and non-economic criteria. As legitimacy is a phenomenon virtually impossible to measure, *the present study analyse retailer legitimacy in terms of the perceptions of interviewees- whether the firm's economic and societal-based norms of retailing and retail practices and structures are accepted by relevant social actors.*

### 3.6 Legitimacy and performance

Scholars seem to have different opinions on what constitute success and failure in a foreign market. For example, Sparks (1995) implied that success in internationalisation occurred when strong relationships are built between international partners, and when mutual benefits emerged. Dupuis and Prime (1996) on the other hand, considered internationalisation success as the ability of retailers to transfer retail concepts to another cultural environment. Whiles, Samiee (1995) suggested that successful expansion of European retailers was due to a retailer sensitivity of individual market needs, along with managerial ability and marketing strengths to implement culturally sensitive retailing mixes. Duran and Wrigley (2009), on the other hand attributed the successful expansion and performance of Wal-Mart and Carrefour in different international markets during the period 1991-2006, to the timing and mode of market entry, market power, and sensitivity to issues of labour organisation and standards. And finally, Evans, Treadgold and Mavondo (2000) suggested that internationalisation success refers to retailer performance in new market. Thus, opinion on what constitutes success differs.

The legitimacy performance relationship is especially critical to retail foreign direct investment seeking resources, since relevant social actors in the host country are more likely to judge foreign retailers on past and present behavior, and grant economic resources and social support accordingly. Zimmerman and Zeitz (2002) pointed out that society judges an organization as appropriate partly because of its past performance. Survival is the most frequently recognized effect of legitimacy (e.g. Baum & Oliver 1991). But beyond mere survival is growth and performance (Dacin, Oliver & Roy 2007; Zimmerman & Zeitz 2002). The study by Certo and Hodge (2007) found that investor perceptions of organisational legitimacy were directly related to perception of future financial performance.

One of the most frequently used measures of performance in the early stages of new ventures include: efficiency, profit, sales growth, employee turnover, customer loyalty, market access, competitiveness, size, liquidity, success/failure (i.e.,

survival) market share and leverage (Murphy, Trailer & Hill 1996; Brouthers, Brouthers & Werner 2000).

There are two performance domains that can be used to measure firm performance: as of financial or non-financial nature. The financial domain comprises market and accounting measures of performance (Meglio & Risberg 2011). Market measures include cumulative abnormal returns (CAR) or cumulative average abnormal returns (CAAR). Accounting measures rely upon financial information from the companies' accounting records and are usually expressed as values, ratios, or percentages. Accounting measures may reflect three different dimensions. The first dimension is profit, and is measured by return on assets (ROA), return on sales (ROS), or net income. The second dimension is growth, and it is measured by sales growth. The third dimension is liquidity and leverage, and it is measured by cash flow.

The non-financial domain comprises operational performance and overall performance. Operational performance measures reflect three dimensions. The first is marketing dimension, and is measured by market share. The second dimension is innovation, and it is generally measured by the number of patents or patent frequency. The third dimension is productivity, and is measured by cost synergies. Overall measures of performance reflect two dimensions: success and survival. Success is measured by the degree of attainment of internationalisation goals. Survival is often measured by divestiture, dissolution, or exit within a chosen time interval (e.g. Dhanaraj & Beamish 2009; Meglio & Risberg 2011). *In this study, performance of subsidiaries of Finnish multinational retailer in Russia is assessed based on interviewee's perceptual evaluation of non-financial performance measures such as customer loyalty and internationalisation goals attainment, and other attributes that emerge from the data.*

### 3.7 Investigating business strategies of international retailers in Russia's market

After presenting the theoretical constructs to be applied in the study, the dissertation now discusses how the strategies of subsidiaries of Finnish retailers in Russia's market will be addressed in the empirical analysis. First, it is important to take note that the study focuses on the *implementation* of a business strategy rather than on the whole process of strategic planning and management (Harrison & Enz 2005; Karhunen 2007). In line with institutional approach to organisation-environment relationship, the present study examines strategy execution through subsidiaries of Finnish multinational retailers' relations to social actors (consum-

ers, employees, state, suppliers and property owners) within the organisational field of retailing in Russia.

In addition to addressing practices by which these relationships are governed, the empirical analysis also covers the respective business systems and retail store structure. Accordingly, the business *practices* of Finnish multinational retailers are examined in respect to their functional strategies towards social actors in the organisational field such as consumer, suppliers, and employees as important resource for retail operations. Previous research on business operations in transition economics has indicated that transitional context has a profound impact on the nature and management of suppliers and customer relationships (see e.g. Deligonul et al. 2013; Karhunen 2007; Salmi 1995, 2006; Johanson 2004) and on human resource management practices (e.g. Holden & Vaiman 2013).

The *structure* of Finnish multinational retailers is examined on both strategic and operational levels. A strategic-level question concerning structure is the ownership mode consisting of dimensions as to whether the unit in the host market is WOS, or JV. These dimensions have been shown as having importance in studies approaching the retail industry from an institutional perspective (see e.g. Huang & Sternquist 2007). On operational level, it is evident that a transition from planned to market economy brings about changes to retail structures, as international retailers moved in with modern retail store structures or formats that are absent in the socialist era. In addition, it is assumed that for Finnish retailers in Russia, the adaptation of retail management practices is reflected in retail structures as well. For instance, operating the stores efficiently and competitively would require large investment in human resources such as hiring and training new retail talents (e.g. Holden & Vaiman 2013).

### 3.8 Synthesis: Conceptual framework for the empirical analysis

To conclude this chapter, this section draws together the theoretical constructs presented in the literature review into a conceptual model to be applied in the empirical analysis (see Figure 3). I briefly summarise how the institutional processes at different levels are theoretically approached in this study.

First, for the present study which focuses on the institutional environment of a host country and the pressures it exerts on multinational retailers, and retailers' strategic responses to these pressures and the effect on performance, the institutional framework by Scott (1995, 2001), and Oliver's (1991) framework of strate-

gic responses to institutional processes together with Vida and Fairhurst's (1998) framework is selected to help set up the conceptual model for the empirical study. Six factor categories were identified based on the integrated framework- institutional environment, institutional pressures, internal competences, strategic responses, legitimacy, and performance. Based on these six factor categories, a conceptual model for the empirical study was developed.

Second, to understand the link between the institutional environment and the pressures it exert on international retailers, Scott's (1995, 2001) institutional framework was employed to decompose the host institutional environment at industry-level into regulative, normative, and cognitive pillars, each of which affects organisational legitimacy (Ruef & Scott 1998: 879; Scott 1995, 2001), and are thought to be particularly important to understand legitimacy (Deligonul et al. 2013). The present study *explicitly draws on Scott's (1995, 2001) three "pillars" of institutions- regulative, cognitive, and normative pillars to provide foundation for conceptualizing the institutional environment and the pressures it exerts on the operations of Finnish retailers in Russia's market.*

The institutional environment consists of regulatory pressures such as retail laws, rules, and standards; and normative and cognitive pressures such as economic and societal-based norms of retailing, and retail structures and practices, and relevant constituents/social actors.

Third, this study views the host institutional environment at the industry context level constitutes the organizational field. The industry context consists of the individual actors and organisations such as consumers, suppliers, unions, employees competitors, regulatory agencies, professional associations etc. that interacts with each other and with whom the multinational retailer interlocks through complex web of direct and indirect relationships. Empirically, this study also explores who are the relevant constituents or social actors in the context of retailing in the host market (Russia) and the pressures they exert on subsidiaries of Finnish multinational retailers.

Fourth, the firm-level processes are investigated by adopting the view of multinational retailers taking strategic actions, rather than passively conforming to all pressures to gain legitimacy. This is achieved by applying the continuum of strategic responses provided by Oliver (1991) who identifies a variety of strategic responses that organisations could adopt towards conformity ranging from passive acquiescence to active manipulation, depending on both the exerted pressure and its context. Oliver (1991) examines the possibility of resistance as consequence of both organisational characteristics and the nature of institutional pressures such as the reason why they are exerted and the constituents that are exert-

ing them. Therefore, varying strategic responses may take place both between organisational fields with different sets of institutional pressures, but also within a field populated with organisations with different characteristics.

The present study examines the strategic responses of subsidiaries of Finnish multinational retailers to regulatory, normative, and cognitive pressures from the institutional environment of Russia both in terms of resistance vis-à-vis conformity to institutional pressures, and in terms of variety. It is also explored whether there are organisational characteristics such as resource commitment, differential advantage, international experience and decision-makers' characteristics such as perceptions, attitudes and work experience that accounts for such variety in strategic responses.

Fifth, to empirically address business strategies of subsidiaries of Finnish multinational retailers in Russia's market, they are seen as consisting of organisational practices applied when conducting various parts of business operations, and the respective organisational structure. The practices under investigation in this study consists of retail management practices in their relation with other members of the production chain such as consumers, suppliers, competitors, and employees or the local labour force as a critical resource for the retail industry.

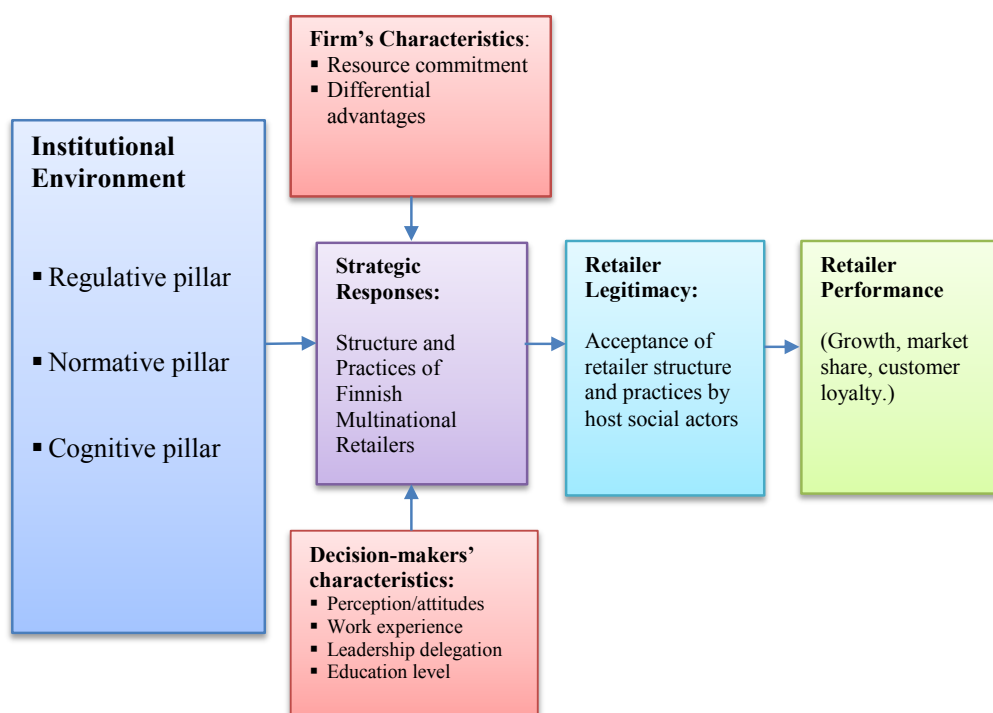
Sixth, retailers' legitimacy is explored in this study in relation with the acceptance of the retailers' structures and practices by host constituents/social actors. The analysis of structure includes retail format, store layout, store location, and operational-level issues such as price, convenience, promotion, assortment, quality, advertising, brand, and customer service. Retail structure is explored in relation to six major retail formats that have been transferred into Russia's market namely: supermarkets, hypermarkets, speciality stores, department stores, wholesale-clubs, and shopping centres (Kaipio & Leppänen; Planet Retail 2013; *The Moscow Times*, 13 November 2012).

Finally, multinational retailers' performance is investigated by adopting a perceptual evaluation of manager's opinion about the firm's performance in the host market. Performance is evaluated in terms of non-financial performance measures such as growth, customer loyalty, legitimacy, and achievement of organisational goals.

In order to illustrate the interrelationship between the various elements of the theoretical framework of the study, the following figure draws them together into a conceptual model (see Figure 3). Miles and Huberman (1994: 18) acknowledge the usefulness of conceptual frameworks in qualitative research by saying that "a conceptual framework explains, either graphically or in narrative form, the main

things to be studied- the key factors, constructs or variables- and the presumed relationships among them”. The figure combines the theoretical concepts of the study, and illustrates the interconnection between different levels of analysis.

It should be noted that the purpose of Figure 3 is to serve as an analytical tool. Miles and Huberman (1994: 20) term it “the researcher’s map of the territory being investigated” before and after data collection and analysis. The logic of the figure derives from the nature of the research question of the study. First, the study views field-level institutional forces as exerting pressures on the operations of international retailers, which for their part make strategic responses to them. In doing so, international retailers resist or conform to institutional pressures by adopting retail structures and practices that gain the acceptance, support and legitimacy from host social actors. The study first examines the sources of institutional pressures. Second, the study examines structure and practices that subsidiaries of Finnish multinational retailers adopt in their relation with regulatory, normative, and cognitive pressures from the institutional environment in Russia. The study also analyses responses in relation with internal organisational characteristics.



**Figure 3.** Conceptual model for the study

Third, it analysis alternatives for the multinational retailers to respond to regulatory, normative, and cognitive pressures from the institutional environment in terms of economic and societal-based norms of retailing and retailer management practices and structures. Legitimacy is analysed by obtaining interviewees perception of the acceptance of the firm's retail structures and management practices in the host market. Adopting appropriate retail structures and practices may generate support and legitimacy from relevant social actors in the host market.

Legitimacy may improve the chances of the retailer acquiring all of the resources needed to survive and grow- resources such as competent and committed employees and managers, loyal customers, and supplier networks (Aldrich & Fiol 1994; Meyer & Rowan 1997). Finally, performance is analysed by obtaining interviewees perception about the performance of the Russian subsidiary of Finnish multinational retailers in Russia's market. Performance is evaluated based on non-financial measures such as growth, legitimacy, customer loyalty, and financial performance measures such as profit and sales of the Russian subsidiary of Finnish multinational retailers in Russia's market.



## 4 METHODOLOGY

After presenting the literature review and the conceptual model for the empirical study in Chapter 3, this chapter will discuss the methodology of the study. Some would argue that the nature of research problem should be the most important influence of the choice of a research methodology. That is *what* one wants to learn determines *how* one should go about learning it (Trauth 2001). *The purpose of this dissertation is to analyse retailers' strategic responses to pressures from the institutional environment in an emerging economy in post-entry.* The chapter will start by explaining the philosophical and methodological stance used to conduct this study in relation to other possible approaches to social science in general and management and marketing studies in particular. Key ontological, epistemological, and axiological assumptions are thus made explicit in order to justify the research strategy and design of the study. Next, the chapter will discuss the research strategy, research approach, and case selection: Next, data collection methods, data analysis and evaluation of the research design will be provided. In sum, the present study can be said to adopt a multiple-case strategy primarily based on semi-structured interviews, which are interpreted from a realist perspective.

### 4.1 Scientific philosophical stance of the study

Researchers operate within a scientific paradigm that is explicit or implicit (Perry, Riege & Brown 1999). A paradigm is an overall conceptual framework within which a researcher may work. In other words, a paradigm can be seen as the 'basic belief system or worldview that guides the investigator' (Guba & Lincoln 1994: 105). In the scientific research, different paradigms or approaches may be identified on the basis of opposing worldviews or sets of basic beliefs (Guba and Lincoln 1998). That is, on the basis of different assumptions on ontology, epistemology, and methodology. For instance, Burrell and Morgan (1979) distinguish between four paradigms in organisational research: the functionalist, interpretive, radical humanist and radical structuralist paradigm. In business and management research, Saunders, Lewis and Thornhill (2009: 108) identified four philosophical paradigms namely, positivism, realism, interpretivism, and pragmatism. Guba and Lincoln (1998) provided a taxonomy of social research paradigms which distinguishes between positivism, postpositivism, critical theory (post structuralism, post modernism and a blend of the two), and constructivism in terms of ontology, epistemology, and methodology.

Ontology is the researcher's view regarding the basic elements of reality (Parkhe 1993), that is, their conception of the world and how it operates (Guba & Lincoln 1994). Epistemology examines the character and basis of knowledge (Parkhe 1993). In other words, the researcher's view concerning what constitutes acceptable knowledge (e.g. subjective meanings, created finding, observable phenomenon or facts). Axiology concerns the researcher's orientation about the role of values in research, that is, is the research to be value-free, value-laden or value-bounded. In other words, "facts" are viewed by the researcher not only through a theory window but through a value widow as well (Guba & Lincoln 1994: 107). Methodology is the procedure followed or a technique used by a researcher to discover that reality (Guba & Lincoln 1994; Parkhe 1993).

**Table 3.** Basic belief systems of alternative enquiry paradigms

Paradigm				
Items	Positivism	Realism	Critical Theory	Constructivism
<b>Ontology</b>	<i>naïve realism:</i> reality is real and apprehensive	<i>critical realism:</i> reality is 'real' but only imperfectly and probabilistically apprehensible and so triangulation from many sources is required to try to know it	<i>historical realism:</i> 'virtual' reality shaped by social, economic, ethic, political, cultural, and gender values, crystallised over time	<i>critical relativism:</i> multiple local and specific 'constructed' realities
<b>Epistemology</b>	<i>objectivist:</i> findings true- researcher is objective by viewing reality through a "one-way mirror"	<i>modified objectivist:</i> findings probably true- researchers is aware and needs to triangulate any perceptions he or she is collecting	<i>subjectivist:</i> value mediated findings- researcher is a "transformative intellectual" who changes the social world within which participants live	<i>subjectivist:</i> created findings- researcher is 'passionate participant' within the world being investigated
<b>Methodology</b>	<i>experiments/surveys:</i> verification of hypotheses: mainly quantitative methods	<i>case studies/convergent interviewing:</i> triangulation, interpretation of research issues by qualitative and quantitative methods such as structural equation modelling	<i>dialogic/dialectical:</i> action research and participant observation	<i>hermeneutical/dialectical:</i> in-depth unstructured interviews, participant observation, action research and grounded theory research

Source: Based on Perry et al. (1999), Sobh and Perry (2006), which itself was based on Guba and Lincoln (1994) from which the quotations come

The two important aspects of ontology (and invariably epistemology) are subjectivism and objectivism. Subjectivism hold the assumption that social phenomenon are created or constructed from the perceptions of the social actors. On the other hand, objectivism holds the view that social entities exists in reality external and independent of social actors. The ontological posture is traditionally seen to define the methodology stance of a research; however, the methodology chosen for a particular research may also be dependent on the researcher's own ontology (Guba & Lincoln 1998). The philosophical assumptions that support these theoretical paradigms relate to ontology, epistemology, methodology, which are summarized in Table 3.

Ideally, the philosophical posture that a researcher adopts guides their methodological choices. Essentially, a paradigm reflects a researcher's understandings of the nature of existence that is beyond "logical" discussion because each paradigm is "rational" within its own constructed logic (Lincoln & Guba 1985). Thus, there is no "objective" ground for selecting a paradigm (Sobh & Perry 2006). All that a researcher can do is work within a paradigm that is consistent with a researcher's own presumptions, presumptions that cannot be tested on any empirical or logical grounds (Sobh & Perry 2006).

*The present study adopts the critical realist philosophical stance to guide the methodological choice. Critical realism* paradigm is of the view that there exists, although not completely apprehensible, a real world (external reality) to be discovered and explained independently of the researcher's mind (Bhaskar 1978; Harré & Madden 1975; Healy & Perry 2000). This external reality is made up of abstract things that are born of people's minds, but exist independently of any one persons, it "is largely independent, though created by us" (Magee 1985: 61). Realism refers to this external reality- the world out there as consisting of structures that are themselves sets of interrelated objects, and of mechanisms through which those interact.

For example, a realism researcher considers a buyer and a seller are "objects" that interact, and their interaction is not merely the creation of someone's imagination. For instance, in international retailing, the company's external environment is always more important than the internal environment. The real decision are made in the world out there- among *social constructs* like consumers, suppliers, competitors, distributors, employees, governments, legislators, trade association. Thus, the external environment is neither particularly knowledgeable nor interested in the company and its development (e.g. Gummesson 2000). Thus, realism researcher is searching towards an understanding of the common reality of an economic system in which many people operate inter-dependently. That is, real-

ists believe that there is a “real” world “out there” to discover. However, that real world is only imperfectly and probabilistically apprehensible (Guba & Lincoln 1994; Perry et al. 1999; Tsoukas 1989). In particular, critical realists posit a three-fold ontological stratified world domains that comprises real (what exists), actual (events), and empirical (observable events) (Baskar 1978). Some researchers have noted that realism paradigm is suitable for some marketing and international business research than the other three paradigms above (Morai 2011; Perry et al. 1999).

At the core of scientific realism is the acceptance that successful theories are representative of what exists (Smith 2006). Critical realist ontology tries to navigate a ‘middle course’ through the extreme of positivist and constructionist ontologies, thereby providing an alternative conception of the intellectual tools most appropriate to their realisation (Reed 2011). Critical realist accept that knowledge of the social reality is always mediated through reflective and creative mobilisation of existing stocks of knowledge – concepts, models, theories, discourses – accumulated through previous generations’ attempts to describe, understand and explain ‘what the world is and how it works’ (Reed 2011).

Numerous researchers have acknowledged the value of critical realism as a philosophical underpinning for social sciences in general (Carter & New 2004; Danermark, Ekstrom, Jokobsen, & Karlsson, 2003; George & Bennett 2005; Layder 1990; Miles & Huberman 1994; Robson 2002; Sayer 2000; Stones 1996), international business (Madureira 2004; Morais 2011), organisation and management (Fleetwood & Ackroyd 2004; Blundel 2007; Tsoukas 1989), and marketing (Perry et al. 1999; Sohbi & Perry 2006; Zinkhan & Hirshheim 1992). This growing popularity arises in part from its ability to surpass some of the classical dualism in social science as positivism versus interpretivism, and structure versus agency (Bhaskar 2002: 19–22).

The purpose of the present study of retailers’ strategic responses to institutional environment in post-market entry is to discover, identify, analyse, and explain the variables of the structures and generative mechanism influence strategic response choices to institutional pressures and performance of subsidiaries of Finnish multinational retailers in Russia’s market. Thus, the present study shares the view that although social phenomena are concept-dependent, they exist regardless of the researchers’ interpretation of them. In addition, even though our knowledge of the world is fallible and theory-laden it is not immune to empirical verification and critical evaluation (Sayer 1992). The critical realist philosophical stance is adopted in this study for two reasons: Firstly, this study tries to explain a complex multifaceted, dynamic and relatively clearly bounded (Easton 2010; Yin 2009) prob-

lem- strategic choices for the international retailer to respond to regulatory, normative, and cognitive pressures from the institutional environment of an emerging market – a critical realist case study perspective allows us to consider and manage many variables at the same time, without permitting any existing preconditions that restrict the number and type of variables involved.

Secondly, critical realist research is oriented towards identifying causal relationship between ‘structure’ and ‘agency’ as this is mediated through strategic deliberations in which social actors routinely engage (Archer 2000, 2003; Emirbayer & Mische 1998; Hay 2001; Mutch 2006; Reed 2011; Reed 2003). This is precisely the objective of this study: retailers’ strategic responses to institutional environment can be considered as the causal processes of its social construction, is influence by the different factors from the institutions environment where it survives or strives (Scott 2008). Accordingly, critical realist case study is well suited for this study to developing causal explanations and ‘exposing’ generative mechanisms (Danermark et al. 2002). The following sections enable such evaluation by justifying the methodological choice of the present study.

## 4.2 Qualitative research

*The present study represents an instance of qualitative research within the realist paradigm* (Healy & Perry 2000). A common distinctive feature of qualitative research is its reliance on few cases and many variables as compared to quantitative research which relies on few variables and many cases (Ragin 1987). This study applies qualitative instead of quantitative research method as the phenomenon under investigation- strategic choices for the multinational retailer to respond to regulative, normative, and cognitive pressures from the institutional environment in emerging economies is still quite new and unstructured, and a deeper understanding is required (Orum 1991; Bomoma 1985; Merriam 1998). This study is therefore qualitative in the sense that it builds a complex and holistic picture of a phenomenon in its natural setting, based on the analysis of words and on the report of detailed views of informants (Creswell 1998). In addition, qualitative research is suitable in examining a variety of evidence (Miles & Huberman 1994) such as multiple interviews (Pauwels & Matthyssens 2004). Moreover, Doherty (1999: 396) argues that “international retailing researchers should be encouraged to employ qualitative techniques to discover a deeper understanding of aspects of the internationalisation process for which only descriptive and general explanations currently exist”.

### 4.3 Research approach

The case study technique is used here since it is an in-depth, multifaceted investigation applying qualitative research methods of single social phenomenon (Orum, Feagin & Sjoberg 1991). The present study adopts a holistic multiple-case study approach (Yin 2009), which is primarily justified with three interrelated factors: (1) the research question; (2) the nature of phenomenon under study; and (3) practical constraints. Firstly, research questions of this study which are: (1) *What are the strategic choices for the multinational retailer to respond to regulatory, normative, and cognitive pressures from the institutional environment in an emerging market?*, (2) *How and why did firms' characteristics and decision-makers' characteristics influence retailers' strategic responses to institutional pressures and performance?*, and (3) *What are the factors in the context of international retailing that influence the strategic choices of multinational retailers in Russia's market?* – are exploratory in nature, which supports the use of case study design (Yin 2009) and critical realist case study (Easton 2010: 123–124). Yin (2009) suggests that case study design is appropriate to answer both exploratory types of, “how” and “why” questions as raised in this study.

In addition, the research questions aid narrowing down the scope of the study into “some actors in some contexts dealing with some issues” (Miles & Huberman 1994:22). In other words, they influence both the theoretical context of the study and the theoretical framework for analysis (Welch, Piekkari, Plakoyiannaki & Paavilainen-Mäntymäki 2011). The theoretical framework in turn supports the adoption of a multiple rather than a single-case design by stating “the conditions under which a particular phenomenon is likely to be found (a literal replication) as well as the conditions when it is not likely to be found (a theoretical replication)” (Yin 1994: 46). According to Miles and Huberman (1994: 22) “we begin with some orienting constructs, extract the questions, and then start to line up questions with an appropriate sampling frame and methodology”. Therefore, the case study approach used in this study can significantly contribute to attaining the research aim, which is to explain the pressures international retailers face in Russia, and strategies managers pursue in response to these pressures, and the ultimate effect on performance through developing a new model based on previous theories and frameworks.

Secondly, at the beginning of the research process, the phenomenon under investigation in this study i.e. retailers' strategic response choices to pressures from the institutional environment in an emerging market of Russia is still quite new and unstructured and therefore difficult to be accurately measured (Bonoma 1985). In addition, the influence of the institutional environment on retail internationalisa-

tion is regarded as highly contextual requiring a methodological approach which does not interfere with their natural settings. The application of case study approach in the present study therefore seems appropriate as it is “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin 1994: 13).

Eisenhardt (1989) argues that case studies are particularly well suited to new research areas or research areas for which existing theory is not established, as was the theory of the role of strategic responses to institutional processes in international retail context. Moreover, in critical realist case study approach, (Easton 2010) suggested, that the phenomenon to be studied should be complex, dynamic and relatively clearly bounded. In addition in realist case study approach, Easton (2010: 123) suggested that “the objects of or entities which characterise the phenomenon should be identified, taking into account necessary as well as contingent relations among them”. The present study is therefore no exception.

Thirdly, the discussion of factors influencing methodological choice in the present study would be incomplete without mentioning the practical constraints, which “could be overcome in principle, but are not necessarily easy to overcome in practice” (Easton 1995: 420). In the present study, all interviews *represent corporate elite* (Welch et al. 2002) and therefore the main constraint of the study has been what Bonoma (1985: 206) defines as *executorial* problem, that is, “access to corporations *appropriate for the research objectives*”. *It took about ten months to gain access to case companies to participate in this research.* Such a barrier is in turn primarily justified with a second constraint which is time. On one hand, respondents of the case firms had limited time available to support data collection for the present study and to comment on the findings. On the other hand, the research project itself has been financed from September 2010 to July 2014 thus restricting the time available for literature review, data collection and analysis, as well as reporting. These practical constraints partly justify the implementation of multiple-case research design, as longitudinal research would have required more access and time by involving “the collection of data that refer to different points in time” (Easton 1995: 480).

In addition, case study design is suitable when the purpose of the study is to obtain understanding and meaning from a given phenomenon rather than to test a certain variables (Merriam 1998). Easton (1995: 476) pointed out that “case study research allows the researcher the opportunity to tease out and disentangle a complex set of factors and relationships”. Multiple case study design is applied here since it is considered to be powerful means to create theory and permit replication

and extension among individual cases (Eisenhardt 1991; Yin 2009). Furthermore, Welch et al. (2011: 755) highlight the importance of critical realism case study and argued that “the case study has an important role to play in refining, verifying, testing, and challenging existing theory. The case selection in this study aims to produce similar results, in other words *a literal replication is expected*.”

In order to follow the replication logic in a multiple-case study, each case must be carefully selected. To confirm important findings from a single case, the research strategy is to replicate these findings by conducting a second, third, and even more case studies. The rationale for using multiple-case study in the present study is guided by the researcher’s understanding of literal and theoretical replications. This is because the logic of conducting a multiple-case study is similar to that of conducting experiments, the selection of cases is important. Thus, each case should either generate similar results to achieve a literal replication or contrasting results for explainable reasons to achieve a theoretical replication. This study therefore adopts the first approach to obtain a literal replication.

#### 4.4 Case selection

The case selection for this study was guided by the principle of purposeful sampling (Poulis et al. 2013) and the underlining need for a theory-driven selection of cases along with a consideration of contextual characteristics (Ghauri 2004; Michailova 2011; Tsui 2007; Welch et al. 2011; Yin 2009). Purposeful sampling refers to the selection of ‘archetypical’ cases where phenomena are most likely to serve the theoretical purpose of the research and its research question (Silverman 2000; Stake 1995). Purposive sampling allows us to choose a case because it illustrates feature or process in which we are interested (Denzin & Lincoln 2000). However, this does not provide a simple approval to any case we happen to choose. Rather, purposive sampling demands that we think critically about the parameters of the population we are interested in and choose our sample case carefully on this basis. According to Ghauri (2004) the choice of a case is made because it is important to increase our understanding of the phenomenon under study. Case selection is often one of the critical issues in case study research and should be based on criteria that are consistent with the research problem.

The cases should correspond with our theoretical framework and with the variables that are being studied (Ghauri 2004), as well as the context of the study (Ghauri 2004; Poulis et al. 2013; Welch et al. 2011; Yin 2009). Denzin and Lincoln asserted that, “many qualitative researchers employ...purposive, and not random, sampling methods. They seek out groups, settings, and individuals



where...the processes being studied are most likely to occur” (1994: 202). Based on the theoretical framework and the research question, and to ensure diversity of the sampling, *five selection criteria were identified from the literature: sector activity, formats, size, capital structure of the group, and mode of entry into Russia* (Cao & Pederzoli 2013). In addition, the samples were chosen *to include major Finnish multinational retailers that have expanded their business operation into Russia’s market*. Applying these criteria, as well as for practical reasons, an initial sample list of four Finnish multinational retailers with subsidiaries in Russia was identified.

*Contact was made with the four multinational retailers identified through e-mails to the Vice Presidents and managers responsible international expansion development in Russia’s market*. The first case company contact was made in the spring 2011. Access was denied because the company was in an early stage of international expansion development in Russia and could therefore not be able to provide the information needed. Three other case companies were contacted in spring 2011 *and confirmation of access and participation in this study was obtained in autumn 2012*. Of the three companies who agreed to participate in this study, the interviews were conducted in spring 2012. In addition to access problems, it was difficult to obtain an interview from all members of the corporate top management team in each company *both at corporate headquarters and in the subsidiary located in Russia*. Under those circumstances, another person from function, who had international retail experience (e.g., instead of Senior Vice President of International Development, a host country subsidiary manager) was interviewed. Access for interview was restricted to only host country subsidiary managers for reasons of limited managerial resource commitment and protection of confidential information.

Although access was somewhat limited in a way that for example the Chief Executive Officers were not interviewed, in each of the case companies *all of the respondents are members of corporate top management team*. It can therefore be stated that lack of more comprehensive corporate top management representation is *a limitation in this study*. However, in each of the case companies the interviewees had international retail operation experience and they represented the functions which have significant impact on international retail operations such as marketing, sales, human resources and corporate strategy. Therefore, the different viewpoints of the phenomenon were analysed. There are no set of defined rule about the number of cases in a multiple case study and the number of cases is not a quality criterion (Pauwels & Matthyssen 2004). However, Yin (2009) argues that a few cases, 2 or 3, would be literal replication, whereas a few more, 4 to 6 might be designed to pursue theoretical replication. At the initial stage of this

study, the number of cases was not set. Taken together with only one firm, who refused to participate in this study, the final sample of three (3) firms *thus constitutes the total population of Finnish multinational retail firms with international operations in Russia's market, which suits this study.*

In order to identify the cases accurately and to achieve a higher level of reliability, the *anonymity of the individuals is sought and the cases are not disclosed* (Yin 2003). Since the topic of the research is quite sensitive and includes matters related to company strategy, it was decided from early stage that the names of the case companies as well as the names of respondents would remain confidential. Anonymity helps to protect the real cases and their real participants. The cases chosen for this study is: SABELO, ZOMAYA and PALELA There are six major retail formats of foreign retailers transferred into Russia's market namely: supermarkets, hypermarkets, speciality stores, department stores, wholesale-clubs, and shopping centres or shopping malls (Kaipio & Leppänen 2005; Planet Retail 2013; The Moscow Times, 13 November 2012). The sample chosen in the present study represent three of these formats – department stores (SABELO), hypemarket/supermarkets (PALELA) and fashion or apparel/clothing (ZOMAYA) that have been transferred to Russia's market.

## 4.5 Data collection

A case study approach typically involves the collection of multiple sources of evidence in order to ensure in depth and holistic understanding of a small number of social entities or situations (Eisenhardt 1989; Yin 1994, 2003, 2009; Creswell 1998). According to Yin (1994: 92) “any finding or conclusion in a case study is likely to be much more convincing and accurate if it is based on several different sources of information, following a corroboratory mode”. Likewise, Jick (1979: 602) posited that “organisational researchers can improve the accuracy of their judgements by collecting different kinds of data bearing on the same phenomenon”. The more widely used terminology in the literature referring to these data collection methods is ‘triangulation’ a term that has been developed by Denzin (1970). *Triangulation* refers to combining several qualitative methods and quantitative methods (Flick 2006).

This study applied triangulation in both ways, and interview data was triangulated with document data. The main advantage of triangulation is that it produces a more comprehensive picture of the phenomenon under investigation. In case study research it is also very important to check and to validate the information from different sources. Following the recommendations of Yin (2009), Eisenhardt

(1989), Creswell (1998), and Stake (2000), evidence for the present study was collected from the following sources: interviews with host subsidiary managers and secondary sources such as company PowerPoint presentations, company annual reports, participant observation on retail practices, and press articles. *The unit of analysis is the subsidiary of Finnish multinational retailers in Russia.* These data collection techniques produced rich information and descriptions of the case (subsidiaries of Finnish multinational retailers), the physical settings and context (field of department store retailing, grocery and apparel/fashion retailing in Russia's market along with institutional norms of retailing relevant for different social actors), other cases through which this case is recognised (competitors, other international retailers), and finally informants through whom the case can be known (interviewees) (Stake 2000).

*The data collection process proceeded in two phases.* The first phase involves collecting secondary data regarding retail internationalisation in Russia, the institutional environment of Russia, and the operations of Finnish multinational retailers in Russia. *The second phase involved conducting personal interviews with subsidiary managers of Finnish multinational retailers in Russia.* Furthermore, participant observation was carried out concerning retail practices of subsidiaries of Finnish retailers in Russia. Data collection activities resulted in a database containing 6 audio tapes and 53 pages of single spaced interview transcripts in English. Other related documents in the database were industry reports, press articles and government publications. The database exists to enable researchers to deduce their own independent conclusion about the case.

#### 4.5.1. Interviews

*The primary source of data collection for the study was interviews with host subsidiary managers.* Focusing on interviews as the main source of data serves two purposes. First, since there is very little information available on the topic of the study, interviews bring new knowledge about the experiences and strategies of Finnish multinational retailers operating in Russia. Second, the approach provides the means for Finnish multinational retailers in Russia to describe the constraints the institutional environment impose on their operations. The use of qualitative research methods such as interviewing has become established in the retail internationalisation literature, complementing earlier studies which relied on the use of quantitative methods (Doherty & Alexander 2006; Evans, Mavondo & Bridson 2008). In the *Journal of Retail & Distribution Management*, for example, researchers have used interviews in the study of drivers of retail internationalisation (Bianchi, 2009; Bianchi & Arnold, 2004; Bianchi & Mena 2004; Evans, Bridson,

Byrom & Medway 2008); retailers' strategic responses to institutional environment (Cao & Pederzoli 2013), and flagship format within the luxury fashion market (Nobbs, Moore & Sheridan 2012). Likewise, Elg et al. (2008) used interviews in their study of IKEA's entry into Russia and China.

The interview process followed McCracken (1988)'s long interview approach consisting of four steps. The first step of the interview process deemed it necessary to review the scholarly literature. According to McCracken (1988:31), "this is critical process that makes the investigator the master of previous scholarship". In the context of this dissertation, the review of the literature had already been done in Chapter 2 and 3, and had resulted in a theoretical framework (see Figure 3) which helped in the construction of the interview guide.

The objective of the second step of this process is to offer the researcher a more detailed and systematic appreciation of his/her personal experience with the topic of interest in order to improve the questionnaire construction, and identify categories that might not be considered by the scholarly literature. This process in general aims to engage the researcher in the process of familiarisation of the topic and at the same time create distance from its own preconceptions and assumptions. This step was achieved by the researcher through personal contacts and conversations with experts (academic professionals) and managers within the field of international business and international retailing.

Step three of the interview process involved the questionnaire construction, and respondent selection. The selection of respondents was made after the design of the interview guide was finished. Since respondents are not a 'sample', their selection was not based on sampling rules, instead they were chosen based on some recommendations from McCracken (1988). Subsidiary managers of Finnish retailers in Russia are strangers to the researcher, and they had special knowledge of the topic under study. Respondents were chosen intentionally in such a manner to build distance and contrast among them. For instance, subsidiary managers were chosen based on their great knowledge of the industry and the institutional environment of Russia.

The interview procedure included a brief introduction to make the respondent more comfortable and assure them of the confidentiality of the interview process. It started with simple descriptive questions to locate the interviewee in the topic of interest (e.g. please can you describe your personal background and former positions). The range of questions covered the challenges of the institutional environment, retail structure, marketing and management practices and strategies, and retailer legitimacy and performance. Interviews were recorded on tape, and a ver-

batim transcript of the interview testimony created. In sum this third step involved the careful construction of the interview questions and selection of interviewees.

Interviews were held in two phases: pilot and main interviews. In the first phase, the researcher conducted a pilot interview in the form of question-and-answer section with host subsidiary managers during a presentation on the company's operations in Russia. At these presentations, the researcher had the opportunity to ask questions and obtain answers about the firm's internationalisation activities in Russia in order to evaluate the standard open-ended interview guide. The pilot interview or the question-and answer section was conducted on 23rd and 24th April 2012. The pilot interviews in the form of question- and-answer section were in-depth for supporting the results obtained from the main interviews, and for clarifying specific issues. In the second phase, main interviews were conducted on 18th January and 14th February 2013.

*This study employs standardised open-ended interview approach*, which according to Patton (1990: 280), "consists of a set of questions carefully worded and arranged with the intention of taking each respondent through the same sequence and asking each respondent the same questions with essentially the same words". A semi-structured interview guide was developed on the basis of the theoretical framework and the conceptual model for empirical study (see Figure 3) to illustrate key areas of each interview discussion in order to focus upon specific of interest that would inform the research question. According to Eskola and Suoranta (2005: 81), theory helps the researcher to discover new knowledge as well as to structure and systematise data. In this study, theory was applied as the basis of the empirical study and later to analyse and structure the empirical results. In total, 3 semi-structured interviews were conducted with managers of three subsidiaries of Finnish multinational retailers in Russia.

In the interview, the researcher's own line of enquiry was followed, which was reflected in the interview guide (see Appendix C) and the actual questions were asked in unbiased manner. For instance, sometimes a 'why' question can be asked by 'how' (Yin 2003). The unstructured approach trades generalisability for contextual understanding through the researchers' focus on a particular phenomenon (Maxwell 1986, cited in Siebers 2011). This suits the last objective of this study, which is to generalise cross-case conclusions of a suitable framework to explain the strategic response choices for the international retailer to respond to regulatory, normative and pressures from the institutional environment in post-entry. The relatively low degree of flexibility and spontaneity associated with such a type of structured interviewing (Fontana & Frey 2000) has been compensated with the use of probes and follow-up questions (Patton 1990). In this study, such probes

were not written out in the standardised open-ended interview guides (see Appendix C), but proved important in enhancing the degree of comfort, accuracy, and honesty with which the interview questions were answered.

This study investigates a particular phenomenon in a specific context (i.e., strategic responses to environment- regulatory, normative, and cognitive pressures from the institutional in the context of international relating). Therefore, in this study, interviewees were selected on the bases of their knowledge rather than convenience, which is recommended, especially, “if only one informant per organisation is to be questioned” (Huber & Power 1985: 174). *In the present study, the host subsidiary managers who know the decision-making process in international retail expansion in Russia were selected for interviews.* It may be argued that other individuals than host subsidiary managing directors themselves could have been interviewed in order to analyse their perception of the institutional environment pressures and strategic responses to these pressures. Such a possibility could not be met in the present study due to denial of access to functional managers for interviews. This was compensated on the argument that host subsidiary managers possess vast knowledge of the retail industry and the institutional environment of Russia.

Furthermore, interviewing other individuals other than host subsidiary managing directors would have been interpreted as lack of confidence in the manager (Welch et al. 2002). It must be recognised that the respondents are regarded as *elite interviewees* (Welch et al. 2002), which represents an opportunity as well as challenges in terms of access, power, openness, and feedback. However, the issue of power inequality between the researcher and the interviewee was not sensed in the present study. During the interview, the researcher’s own line of inquiry was followed, which was reflected in the case study protocol and the actual questions were asked in an unbiased manner. For instance, sometimes, a ‘why’ question can be asked by ‘how’ (Yin 2009). The actual interview was preceded by a personal contact through e-mail correspondence well in advance in order to agree the date, time, and place of the interview. The issue of confidentiality was also addressed in the e-mails. The approach to the interviews was formal in the sense that the standardised open-ended interview guide and a consent letter were sent to the interviewees beforehand. The formal approach appears to have stimulated a respectful and even proactive response from interviewees as informants have to plan and schedule the interview to fit into their business routines. The openness of interviewees was stimulated with an explicit mention in the consent form (see Appendix B) the implications of the study in general and the anonymity and confidentiality of responses in particular (Huber & Power 1985).

*Each interview section lasted from an hour to an hour and a half, and without interruption. All the interviews were conducted in English language as all the respondent could understand and speak English perfectly. Two of the interviews were conducted by telephone, and one by the respondent answering the research questionnaire by written text. The cost of travelling to Russia to conduct face-to-face interviews, and the respondent's preference for telephone interviews and written texts therefore presented the researcher with no other alternative. The physical settings of the interviews- phone interview- did not constitute a source of power imbalance either. All interviews were tape recorded with permissions from the interviewees (Patton 1990) and transcribed.*

In terms of feedback, interviewing host subsidiary managers appears to have constituted an opportunity rather than a challenge “as elites are comfortable with written correspondence and are willing to engage directly in the process of factual verification of the findings” (Welch et al. 2002: 618). *In this study, interviewees were required to provide feedback in two stages. In the first stage, the interview transcripts were sent to the interviewees for factual verification in terms of both content and language, whereas in the second stage the preliminary conclusion of the study is sent for their evaluation and approval. Interview transcripts were sent by email, whereas the preliminary conclusions will be sent and received by post in order to facilitate handwritten notes in a ready-made printout. The preliminary conclusions are illustrated with quotations from the interviewees to whom they will be sent and adapted in terms of form in order to include executive summary.*

#### *4.5.2. Secondary data*

Several secondary sources were used as evidence. Stewart and Karim (1983) claimed that if one uses secondary data, the researcher will have an advantage compared to researchers who only use primary data, because secondary data already existing can be re-evaluated before use. In this study, document data were collected as secondary qualitative data aiming to confirm interview data as much as possible. The document data used in the study consists of company documents of the case companies and their main competitors in the Russian market, such as annual reports, company PowerPoint presentation slides, web pages, press releases, and promotional materials were used for a better understanding of the retail sector in Russia and its development and main social actors. In addition, document data used in the study consists of public materials that are relevant to the external environment and the firm's internal environment, including central and local government reports, especially government policies and statistics regarding WTO, FDI and Russia' retail industry. Academic journal as well as organisational

journals, textbooks, and other students' theses are also referred to when deemed appropriate. The document data mentioned above mainly obtained from written materials and multiple data source serve to provide background for the whole research and form the basis for each case, focusing on brief company profiles, and expansion activities in the international market, and their expansion process, including future expansion plans in Russia.

Finally, document data used in the study consists of articles in Russian newspapers focusing on the developments of the retail industry in Russia, as well as industry publication such as retail consulting companies were collected before as well as after the primary data collection. Three important newspapers were chosen: The Moscow Times, The St. Petersburg Times and The Russian Journal. The reason why these three newspapers are selected is because they are the only national English language newspaper in Russia, and with wide international circulation. The Moscow Times is the only English-language daily published in Russia with contents covering realities of Russia's investment environment, related policies, stock market, and the latest developments in economic and business legislation. Following Golder (2000), all the newspaper report were screened to make sure that they belonged to credible sources. The documentary data, mostly quoted in the background of the research and case studies are summarised in Table 4.

**Table 4.** Important secondary data in this study

- 
- Central and local government studies and reports, country profile statistics, rules on international trade regarding imports and exports and policies on FDI
  - Studies and reports of research institutes, chamber of commerce retail and marketing consulting agencies
  - Russian newspapers in English language namely: The Moscow Times, The St. Petersburg Times and The Russian Journal
  - Academic as well as company documents relevant to the research topic and journal on statistics published by different research organisation regarding the retail industry, market shares, revenue, and process of international expansion
  - Textbooks and other published materials directly or indirectly related to the research area
  - Historical studies regarding the development of a particular discipline or research area
  - Theses and reports written by other students in the researcher's own university or other universities
- 

Only articles and reports from three newspapers were included, which were the ones with utmost reputation and mostly read by business people in Russia. These articles themselves were considered in high in authenticity because of the public nature of the reports. Thus the evidence was evaluated in terms of its competence,



objectivity, and reliability (Golder 2000). Evidence that did not meet these conditions was discarded. The secondary data sources were classified into five groups, covering different issues relevant to the institutional environment and the retail industry in Russia. The groups and issues addressed under them are summarised in Table 5.

**Table 5.** Classification of documentary evidence

<b>Category</b>	<b>Issues covered</b>
<b>Government industry regulation</b>	Rules on international trade regarding imports and exports, and FDI policies regarding ownership structure, tax, profit repatriation, labour relations, and operation hours.
<b>Economic and business environment</b>	Economic indicators Development in the retail sector and retail infrastructure Local and foreign competition Business systems Marketing channels
<b>Institutional social actors</b>	State government and local governors Consumer profile, taste and preference, and shopping habits Retail talents or labour market Supplier networks Distributors or wholesalers
<b>Business structure and management practices</b>	Retail concepts or formats in the Russian market Experience of operating in the Russian market Human resource management practices in the Russian market Corporate culture or values
<b>Performance</b>	Factors enhancing legitimacy and growth Obstacle for growth Planned investment projects

In summary, the reviewed sources provide comprehensive information on the institutional environment of Russia. In particular, this includes the development of the retail industry and covers macro and micro-level institutional pressures relevant to the retail sector such as FDI policies concerning retail operations.

#### 4.5.3. Participant observation

Observation of retail practices of the three subsidiaries of Finnish multinational retailers in Russia was also conducted during the time the researcher attended presentation by the three case companies in Russia, and notes regarding these observations were recorded in a field diary. Participant observation is a technique by which the researcher (or trained observer) participates and interacts with the subject (s) or events being observed. This technique arises from the field of cultural anthropology, where researchers apply this method in order to understand the attitudes, norms and behaviours that were not easily communicable by language or that showed discrepancies from real and mentioned behaviour in surveys (Friedrichs & Ludtke 1975; cited in Bianchi et al.2002).

An example of participant observation in a public setting is mystery shopping where the practices and operations of a store or outlet is evaluated by a trained observer who acts like a customer and anonymously writes a thorough report on various areas the service and shopping environment of the store (Finn & Kayande 1999; cited in Bianchi 2002). The authors claim that mystery shopping is most appropriate when evaluating characteristics of store operations, such as store environment and layout, merchandise display, and employee uniform. Therefore, this study used mystery shopping to examine the actual practices used by subsidiaries of Finnish multinational retailers in Russia, to attempt to deduce norms associated with retailing. This was achieved through observation by the author of this thesis of the retail practices of the subsidiaries of Finnish multinational retailers operating in department store, food and apparel/clothing retailing in Russia. The following retail practices were observed: (1) general merchandise display and assortment; (2) store layout and atmosphere, including shelving, parking, decoration, colours and light; (3) employee uniform, and (4) hours of operation and special services offered to customers.

## 4.6 Data analysis.

There is no agreed definition of qualitative data analysis (Coffey & Atkinson 1996; Creswell 1998), which in case studies normally “depends on an investigator’s own style of rigorous thinking, along with the sufficient presentation of evidence and careful consideration of alternative interpretations” (Yin 1994: 102–103). In case study research “authenticity” is the main concern (Ghauri 2004: 117). In essence, the aim is to provide an honest coherent understanding of people’s experience. This was the objective of analysing and reporting the empirical findings of this study. Stake (1995) differentiates between *direct interpretation*

*and categorical aggregation* as two strategies of making sense of case study. Direct interpretation refers to meaning which emerges from a single instance, while categorical aggregation refers to meaning which emerge from the repetition of phenomena.

In similar manner, Silverman (2000) differentiates between a *narrative and a realist* approach to interview data. The former tries to make sense of various stories or narratives through which people describe their worlds, whereas the latter equally searches for the “subjective” meanings of people, but relates them to “objective” social structures (Silverman 2000). McCracken (1988) describe categorisation as involving naming, or giving labels to, instances of the phenomenon instances found in the data (cf. McCracken’s term, observation 1988: 43–44). Spiggle (1994) describe seven operations of data analysis: categorisation, abstraction, comparison, dimesionalisation, integration, iteration, and refutation. Categorisation is the process of classifying or labelling units of data (Spiggle 1994).

The purpose of categorisation is identifying a chunk or unit of data (e.g. a passage of text of any length) as belonging to, representing, or being an example of some more general phenomenon (Spiggle 1994: 493). Abstraction builds on categorisation, in that it collapses more empirically grounded categories into higher-order conceptual constructs. It groups previously identified categories into more general, conceptual classes (Spiggle 1994: 493). Comparison explores differences and similarities across incidents within the data currently collected and provide procedures for additional data. Dimesionalisation entails identifying properties of categories and constructs (Spiggle 1994; see also Strauss 1987: 14–16; Strauss and Corbin 1990: 69–72). Integration refers to the coding that help in integrating the categories and constructs defined by the researcher. Integration involves the mapping of relationships between conceptual elements which may take the form of gestalt connections (Thompson, Locander & Pollio 1990), causal linkages (Bergadaá 1990), circular connections (Mick & Buhl 1992), or other explicit associations. Iterations require moving through data collection and analysis in such a way that preceding operations shape subsequent ones (Spiggle 1994). Refutation involves purposely subjecting one’s emerging references- categories, constructs, propositions, or conceptual framework- to empirical examination (Spiggle 1994).

Analysis of the data followed both McCracken (1988) and Spiggle (1994) in general and a realist approach to interview data (Silverman 2000; Reed 2011) in particular. Through analytic operations, researchers reduce, sort and reconstitute data (Spiggle 1994). The major aim of analysis and interpretation of the interview data was to identify categories, relationships and assumptions based on the respond-

ents' opinions of the topic through a movement from data to observation and to conclusions, and at the same time by iterating with the theory (McCracken 1998). Due to the importance of the analysis and interpretation of the interview data, much attention is also given to McCracken' (1988) final steps of discovery of analytic categories and Spiggle's (1994) work on interpretation of qualitative research. The analytic process involves many stages each representing higher levels of generality.

Although McCracken's (1988) final step is described as a linear process, Spiggle (1994) suggest that researchers can use both analysis and interpretation also in a circular manner to arrive at conclusions, and generate or confirm conceptual schemes and theories that describe the data. *The interview transcript which is the main source of evidence was read repeatedly during the process of transcription in order to increase familiarity with the 3 cases selected for this study (Eisenhardt 1989). Each interview transcript generated about 13 to 25 pages of raw data.* These transcripts were then sent back to the respondents as an e-mail attachment in order to increase the quality of the data. The interviewees were asked to comment and complement the text whenever they felt necessary. Respondents replied to the e-mails to make sure that the data remained confidential.

In this study, the first stage of the analytical process involves sketching ideas which consisted of reading through all interview transcripts section by section, and one case at a time in order to establish understanding of the whole data (Tesch 1990). After careful reading, margin notes were written down. Such notes referred to initial ideas about the data such as eventual categories or conceptual relationships. The second stage in the analysis was the creation of a table which displays the data collected by case. Such a data matrix (see Appendix A) or table was created in order to visualise variables by theme. In the third stage, statements of each interview transcript were analysed separately and categorised by classifying (labelling) the different units of data. In other words, the interview data was coded case by case based on the conceptual model for the empirical study.

By coding, the data was given a clearer structure by identifying categories, concepts, chunks or pieces of data as representing or being an example of a more general phenomenon or theme. In Miles and Huberman's (1994: 261) word "when you're trying to determine what someone's behaviour "means", the mental exercise involves connecting discrete fact with other discrete facts, and then grouping these into lawful, comprehensive, and more abstract patterns". *The coding was laborious practice and involved marking (underlining or highlighting) and annotating text passages of the transcribed interviews and other information. The themes identified were based on the research question encompassing the varia-*

bles (1) causing/triggering institutional pressures, or (2) enabling the strategic responses, or (3) enhancing legitimacy, which in turn (4) affect performance of retailers. Some of the variables with which such (4) themes were associated have been identified in extant literature. Such themes and variables can be regarded as the priori hierarchical coding frame (Richards & Richards 1995) of the present study, following the view that “coding must start with a frame that is well grounded in theory or conceptual scheme” (Araujo 1995: 97).

In other words, the themes form single categories at the top of a coding hierarchy, which define the scope of the data through general-to-specific links to other categories immediately below (Richards & Richards 1995). In this study, such categories are codes, which are empirically grounded by relating to chunks of text as well as theoretically relevant by only obtaining meaning in relation to other categories (McCracken 1988; Spiggle 1994). *The third stage related the previous classified categories or themes to other themes derived from the transcript.* Thus, initial categories of data were collapsed into higher conceptual constructs or more general conceptual classes. These abstract constructs consisted in more concrete instances found in the data that share certain common features.

*In effect, an effort was made in the present study to preserve the holistic nature of the phenomenon by considering simultaneously its content, context and process* (Ghauri 2004; Michailova 2011; Pettigrew 1987; Poulis K., Poulis E. & Plakoyiannaki 2013; Reed 2011; Tsui, 2007; Welch, Piekkari, Plakoyiannaki & Paavilainen-Mäntymäki 2011). *The fourth stage of the analysis investigated the inter-connection or causal mechanisms* (Reed 2011) of the observation with context (Welch et al. 2011) and theory (Roberts 1996). Through iteration through the data and theory, *the final stage took these themes to the final process of analysis and interpretation of the constructs and relationships.* Eisenhardt (1989) refers to such step as *enfolding literature* by which emerging concepts or propositions are compared with broad range of external literature. Critical realist (Parker, 2000; Stones 2005) refer to such steps as the continuous interplay between conceptualization/model-building/theory development and contextualization/narrative reconstruction/theory testing that enables the critical realist to build robust analytical histories of emergence. Overall, the data analysis, interpretation, and reporting was based on critical realist thinking (Reed 2011; Silverman 2000) which provides a set of sensitising concepts that guide the research and a contextualising framework (Poulis et al. 2013; Reed 2011; Welch et al. 2011) within which the research can be undertaken and the conceptual model for the empirical study justified.

In line with critical realism as a philosophy and methodological approach to contextualised explanation (Welch et al. 2011), explanations of the results of the presents study is *concerned with accounting for why and how events are produced*. In other words, understanding how the performance of subsidiaries of Finnish multinational retailers in an emerging market of Russia is brought about (e.g., institutional environment affect performance through internal organisational factors, strategic responses, and legitimacy) entails working backwards from events (causes-of-effects explanations) rather than estimating the net effects of causes (effects-of-causes explanations (Mahoney & Goertz 2006). Although computer software for qualitative data analysis has become increasingly popular in management and international business (IB) research, it was not used in this study because of the small volume of data (e.g. Antila 2006; Zalan & Lewis 2004). Rather, manual coding was used in coding the interview transcripts.

## 4.7 Evaluation of the research design

After describing the research approach, case selection, data collection and data analysis process, this chapter ends with an evaluation of the research design on four dimensions commonly adopted in social science in critical realism: confirmability, credibility, trustworthiness, and dependability (Reige 2003).

### *Confirmability (construct validity)*

Confirmability (construct validity) in critical realism approach to case study corresponds closely to construct validity. Confirmability means developing correct generalisable theoretical constructs and valid operational measures for the concepts being studied (Yin 1994). *In order to avoid subjective judgement and increase the confirmability (construct validity) of the present study, three tactics were adopted. First, multiple sources of evidence was used during the data collection.* Data were collected from interviewees, participant observation, and documents to conduct data triangulation. Triangulation can be very useful when different aspects of the phenomenon are examined by the most appropriate combination of methods and sources (Yeung 1995). Accordingly, the confirmability or validity of the constructs selected to study retailers' strategic responses to institutional pressures was supported during the data collection process, as multiple sources repeatedly point to the same issues relevant to the influence of the institutional environment on the strategic choice for the international retailers to respond to regulatory, normative, and cognitive pressures from institutional environment in Russia. Thus, the combination of interviews and document data improved the confirmability of the findings.

Secondly, request for feedback concerning the interview transcript and its interpretations was sent to respondents. Such a factual verification, evaluation and approval from interviewees are thought to have improved confirmability with the extensive use of quotation from the interviews in the final report in order to illustrate the studies concepts and their relationships. Thirdly, the empirical evidence was presented in its original form as possible, including direct quotations from the interviews in preliminary and final reports in order to illustrate the studied concepts and their relationships. Such quotations relate to conceptual variables based on the conceptual model for the empirical study thus contributing to a logical chain of evidence (Yin 2009), which allows readers to make their own interpretation (Patton 1990). Furthermore, citations of the data sources such as interviews and newspaper articles were used to enable the reader to follow the deviation of evidence from initial research questions to conclusion (Yin 1994). Finally, careful attention was paid to the construction and keeping of the database in a proper way, and the case study interview guide was developed in a manner that supports the initial research questions.

#### *Credibility (internal validity)*

Credibility is analogous to internal validity, and it involves the approval of research findings by either interviewees or peers as realities may be interpreted in various ways (Riege 2003). In the present study, *credibility was evaluated by three means. First, document data were collected as a secondary source, aiming to obtain more evidence to justify the data collected from the interviews at the end of each interviews when possible, aiming to provide internal validity of the interview data. Second, the study performed cross-case analysis, expert peer review, and the development of diagrams, illustrations, matrices to demonstrate the internal consistency of information collected. Third, this study precisely distinguished the unit of analysis and linking of the analysis to prior theory identified in the literature review. Finally, credibility was achieved by triangulation, peer debriefing and discussion of the results and conclusions with other academic researchers at local internal department seminars and international conferences was carried out (Lincoln & Guba 1985; Hirschman 1986). Document data were collected to triangulate with the interview data to achieve a high level of internal validity.*

#### *Trustworthiness (external validity)*

Trustworthiness is equivalent to the function of external validity or generalisation in conventional quantitative research. Evaluation of trustworthiness is aimed at achieving analytical generalisation in realism approach case study. In analytical generalisation, the researcher is seeking to generalise a particular set of results to some broader theory (Yin 1994). Trustworthiness (external validity) of this study

was established by applying replication logic in the multiple-case studies design. The theory is to be established by replicating the findings in all the three cases chosen. This study aimed at contributing to institutional theory and international retailing literature by explaining the influence of the institutional environment on retailers' strategic response choices to institutional pressures in post-entry with the application of multiple-case studies design on the one hand, and contributing to the development of constructs of institutional and organisational theory with evidence from a unique context on the other hand. The results therefore can be accepted due to providing a strong support. Furthermore, the conceptual framework developed for this study can be applied to other sectors in emerging economies as well.

#### *Dependability (reliability)*

Dependability is analogous to the notion of reliability. The purpose of dependability test is to show indications of stability and consistency in the research process (Riege 2003). In other words, dependability measure aims at minimising the errors and biases in a study (Yin 1994). In this study, dependability was achieved by providing a case study database, so that future researchers can conduct research using the same procedures as those of this study. Every case study project should develop a presentable database so that another investigator can review the evidence directly. A case study database significantly increases the reliability of the whole case study (Yin 2003). The dependability of this work was increased by adopting clear procedures for data collection and analysis including: (1) a data matrix, (2) a consent form, and (3) standardised open-ended interview guide which should enable the replication of the study by another author. The data matrix (see Appendix A) specifies the type of data collected per case company following Yin's (2009) reminder that reliability implies "doing the same case over again, not on "replicating" the results of one case by doing another case study". In other words, such a data matrix identifies the sources of evidence collected for each case selected, and thus contributing to the dependability of the data collection. The access to such sources of evidence was facilitated by the use of a consent letter (see Appendix B), which clearly states the purpose of the study as well as the implication for those who may provide such types of data.

The consent letter can therefore be considered as additional factor facilitating dependability in terms of data collection of the present study. For the particular case company interviews, the main source of evidence which represent *the standardised open-ended interview guide* (see Appendix C) may also be considered to have reduced research error and bias (Fontana & Frey 2000). The contribution of the interview guide to the dependability of the study may however, be questioned in



two ways. In one hand, the standardised open-ended interview guide was supplemented with probes and follow-up questions which trades-off dependability for confirmability due to an increased but less transparent control over the interview (Patton 1990). In the other hand, collecting data in different time intervals (Yin 1990) even with the same interview guide may involve bias and error due to respondents' inability to recall past events accurately (Huber & Power 1985). In this study, the sources of collected document are given when quoting as part of the case study database. The document data were available online when being collected.

This chapter presented the methodology of the study. A multiple-case study method was used and three representative case studies were chosen following replication logic. Interview data were collected, which were then triangulated by document data. The influence of the institutional environment and organisational factors were considered during the interviews. The study was designed to enhance the validity and reliability of the collected data. A holistic approach was used in each case. Multiple data source through triangulation aided to achieve confirmability (construct validity). Credibility (internal validity) was achieved by applying cross-case analysis. Trustworthiness (external validity) was achieved by replication logic in multiple-case studies. Dependability (reliability) was achieved by the development of a case study database for the study.

After presenting the methodology of the study, the dissertation now proceeds to the empirical analysis, which is divided into chapters. Chapter 5 presents analysis of the economic and business environment of Russia and its' retail landscape, and the background of the case companies for this study. The empirical data analysis concludes with Chapter 6, which illustrates the influence of the institutional environment and organisational factors on the strategic choices for Finnish retailers in Russia to respond to regulatory, normative and cognitive pressures from the institutional environment in post-entry. Next, organisational factors influencing retailers' strategic responses to institutional pressures, and retailers' legitimacy and performance are presented.



## 5 EMPIRICAL ANALYSIS AND RESULTS

This chapter is structured in the following way. First, brief overview of Russia's economic and business environment will be provided. Second, a description of the retail sector in Russia will be provided. The retail sector and its development and the main players in the market will be discussed. Third, *a description of the background of the case companies and their internationalisation process in Russia will be provided.*

### 5.1 The Russian economic and business environment

The mid-1980s marked the starting point of Russia's unforeseen abandonment of seven decades of communism and a centrally planned economy to a more market-oriented economic system. Russia left a social regime to embrace a more economically open society during 1991-2009. Throughout this period, the country tried to integrate with the international community, resulting in large investment flows. The primary objective of the Russian government during this period was to implement a qualitative economic change and to transform the social structure of Russian society by supporting the fast growing middle class. Through this strategy, the government play a key role in shaping Russian's new long-term economic policy, focusing on fully-fledged international integration and comprehensive modernisation of its key industries and infrastructure. The Russian government implemented a free market exchange with many European countries. In February 2013, Russia opened its capital markets to foreign investors as part of its strategy to modernise the country and attract international investors.

The two decade transition from an inefficient centrally planned economy to an emerging market economy has resulted in significant progress for Russia, even though there are many challenges still to be overcome. Research on Russia has been increasing over the past twenty five years, although not to the extent of that of China and India. It is important to highlight some key features of Russia which hold optimism about the country's economic future, particularly for foreign direct investment. Russia, not like many other transition or emerging economies, is already a highly industrialised country, and has had an educational system well-known for science, engineering, and mathematics, which could help provide huge intellectual capital needed for knowledge-based economy (Michailova, McCarthy & Puffer 2013).

Russia has the biggest land mass in the world, and its immense resources in addition to other endowments generated a gross domestic product (GDP) of around

\$1.5 trillion in 2010, approximately that of India's, but smaller than Brazil's \$2.2 trillion and China's \$5.7 trillion (Michailova et al. 2013). In 2010, Russia's per capital income which amounted to \$10,248 is slightly lower than Brazil's \$10,723, but more than twice that of China's and about eight times that of India's, and is forecast to grow significantly higher than all other BRICs through to 2050 (Wilson, Trivedi, Carlson & Ursua 2011). Russia's GDP growth for the period December 31 2001 to December 31, 2011 was 58.2 percent higher than Brazil's 45.5 percent, but lower than India's 112.5 percent and China's 173.6 percent (World Bank 2012). Furthermore, Russia is positioned to outstrip the GDPs of both the UK and France before 2020, and Germany around 2025 (Wilson et al. 2011). In the later part of 2011, the Russian economy bounced back to its pre-2008 financial crisis level boosted by the country's growing domestic consumption, and its economy in current dollar terms was the world's ninth largest, up from 11th position in 2007 (Michailova et al. 2013). The key economic indicators of Russia are shown in Table 3.

**Table 6.** Russia – key fundamentals

	2011	2012	2013f	2014f	2013f	2016f	2017f
<b>GDP, constant 2005 prices (\$ billion)</b>	946.85	980.87	1017.49	1057.73	1101.34	1146.26	1192.46
<b>GDP growth rate (%)</b>	4.34	3.59	3.73	3.95	4.12	4.08	4.03
<b>GDP, constant 2005 prices, per capital (\$)</b>	6,626	6,864	7,121	7,405	7,712	8,031	8,360
<b>Inflation (%)</b>	8.44	9.46	6.43	5.41	5.19	5.27	5.32
<b>Exports, total as a percentage of GDP</b>	31.00	31.92	31.64	31.33	30.83	30.14	29.31
<b>Imports, totals as a percentage of GDP</b>	22.18	24.02	24.16	24.18	23.96	23.54	22.96
<b>Mid-year population, total (Millions)</b>	142.90	142.90	142.88	142.85	142.80	142.73	142,64
<b>Unemployment rate (%)</b>	6.58	6.01	5.76	5.54	5.62	5.61	5.56

Source: County Statistics, MarketLine (2013)

Russia has made efforts towards international integration, but instability in the Putin administration is an area of concern. Russia abandoned a strict socialist regime to become a more open economy during 1991-2009. Through this period, Russia tried to integrate with the international community, resulting in huge investments flowing into the country. The primary goal of the Russian government

during this period was to bring about a qualitative economic change in the country and the transform the social structure by supporting the fast growing middle class. The Russian government implemented free market exchange with many European countries. In February 2013, Russia opened its capital markets to foreign investors as part of its strategy to modernise the country and attract international investors. However, the resignation of the Deputy Prime Minister Vladislav Surkov in May 2013 points to the instability within the country's political elite (MarketLine 2013). In November 2012, Putin sacked the Defence Minister Anatoly Serdyukov over allegations of corruption in his ministry. Besides that, many Duma deputies have left the government in recent months due to corruption scandals. Prime Minister Dmitry Medvedev is also under pressure due to the nation's economic underperformance and is likely to face dismissal if the situation gets worse (MarketLine 2013).

Although Russia faced large capital outflows during the global financial crisis in 2008, the World Bank report (Russia Economic Report, Recovery and Beyond; 2013) noted a decline in private sector outflows in 2012. Capital outflows in 2012 amounted to \$56.8 billion compared to \$80.5 billion in 2011. Moreover, capital outflows are likely to decrease further in 2013 according Andrei Belousov, the economic development minister (MarketLine 2013). Looking forward, Russia's growing economic muscle has earned the country membership in the G8 industrialised nations, as well as accession to the World Trade Organisation (WTO) in 2012 after 18 years of negotiations. The country is energy rich, being number one in the world gas reserves and number two in oil reserves, and supplying 25 percent of Europe's energy (Michailova et al., 2013). Russia has the capacity to be even bigger global player. In early 2011, the Russian government established a \$10 billion fund managed by Goldman Sachs to be used in attracting foreign investment into the country. Russia's outward foreign direct investment also rose significantly and averaged almost \$50 billion for 2007 to 2009, and the \$203 billion in stock of assets owned by Russian multinational enterprises in 2008 was bigger than that of any BRIC nation, with Brazil's being \$162 billion, China's \$148 billion, and India's \$62 billion (Panibratov 2010: 3). Unemployment fell to 5.76 percent in 2012 and is around 5.6 percent in May to August 2013; and inflation at 6.5 percent (World Bank 2013).

Regardless of all the positive indications of economic potential, a critical perspective demands a counterpoint. Even though both Medvedev and Putin have often announced policies and laws more favourable to business creation and growth, their execution has lagged, and the corrupt court systems makes it very hard for business people to defend their rights under these laws (Karhunen & Kosonen 2013; Michailova et al. 2013; Panina & Bierman 2013). Corruption goes far be-

yond the courts and seems to be institutionalised throughout the government bureaucracy, which has grown by large scales over the last dozen years since the first Putin administration in 2002 (Panina & Bierman 2013). Russia is ranked 154<sup>th</sup> out of 200 countries on the 2011 Transparency International's Corruption Perceptions Index (www.transparency.org 2012).

Bribery is common and the frequently announced government anticorruption endeavours usually have limited positive outcomes (Panina & Bierman 2013). It is interesting to note that Russia had not signed the United Nations' latest anticorruption convention article (Michailova et al. 2013). As noted by Karhunen and Kosonen (2013), firms entering Russia face heavy administrative challenges, which are illustrated by Russia occupying 120<sup>th</sup> place in the World Bank Group's ranking of business regulation in 183 countries (Doing Business 2012). This provide a conducive environment for corruption, as the authorities may intentionally slow down the processing of a foreign firm's documents with the hope of "speedy delivery fees", or present additional condition for granting the necessary permit (Karhunen & Kosonen 2013). For example, Karhunen and Kosonen (2013) mentioned that one businessman reported that a fire inspector requires that the company obtain a fire alarm system from his relative's company before granting the fire safety certificate.

Overall, leading Russian officials at the 2012 Davos World economic Forum noted that the problem in the Russian economy are embedded in the failures of the political system, with the main problem being unnecessary interference of the government in the economy and continuous pressure from the state (www.russiatoday.com 2012). It is clear as noted previously that many policies and legislative changes are necessary for Russia to be an key player in the global economy, but even more critical is the implementation and enforcement of policies and laws aimed at improving the country's business climate. Given the challenging political, economic, legal and social environment in Russia described previously, it is worth examining how foreign retail firms investing in Russia from stable and transparent legal country such as Finland respond strategically to regulatory, normative, and cognitive pressures from the institutional environment of Russia.

*Russia was selected as host destinations for examining the post-market entry strategies of subsidiaries of Finnish multinational retailers for many reasons.* First, Russia represents a growing market for Finnish firms including international retailers. Russia's household disposable income is 30 percent higher than Brazil's, and 10 times that of India, and four times that of China (Puffer & McCarthy, 2011). Second, the Russian food retail market is experiencing strong, double digit growth, and this is predicted to continue in the future. The Russian food retail

market is expected to generate total revenues of \$577.8 billion in 2017 (Market-Line 2013). Third, Russia has a large untapped retail market with rising “young” middle class women consumers with insatiable love for fashion, and a taste for quality and brand-oriented than consumers in Central Europe (Planet Retail 2013). The total middle class in Russia is approximately 20–30 % of the population, and it is estimated to grow 40 % in 2015, and the income level is to rise to more than €25 000 per year (CEMEEA Business Group, cited in Stockmann presentations 2011).

Forth, the Russian market represent 35 million household earning more than €12 000 euros per year and this is projected to rise to 40 million in 2014. In addition, there is 21 million households earning more than €20 000 euros per year and this is projected to rise to 28 million in 2014 (CEMEEA Business Group, cited in Stockman presentations 2011). Russia’s current population at 141.6 million is expected to fall below the 140 million mark in the next few years. In spite of its declining population, Russia is by far the largest consumer market in Central and Eastern Europe (Planet Retail 2013). Approximately, 8.5 percent (or 12 million) Russians live in the capital Moscow and its suburbs, and this area alone has more inhabitants than countries such as Belgium, Portugal, Hungary or the Czech Republic (Planet Retail 2013).

St. Petersburg and Moscow has approximately a population of 5 million and 12 million residents respectively and a growing retail market with a share of total retail revenue of 5% and 24 % respectively (Rosstat and Ministry of Economic Development in Russia). Finally, a detailed study of the pattern of demand and consumption, as well as the level of saturation of various kinds of material needs, suggests that, compared to the modern living standards typical of developed economies, the actual potential growth in consumption for the average Russia citizen constitutes at least 3 times (Uzyakov & Shirov 2012). Consequently, the Russian economy has a high level of unrealised investment and consumer demand, and this creates the basis for ensuring a high level of economic growth for a long period time (Uzyakov & Shirov 2012), and the retail sector in particular.

## 5.2 Analysis of the Russian retail landscape

During the Soviet era, retail trade was mainly in the hands of the state. There were only government operated supermarkets and basically there was nothing to be purchased in those supermarkets. Empty shelves are common place and you can only find some tomatoes and cucumbers, bread, some cheese and sausage. So the basic concern in those days was where to find the product and what was the

price, and if they have it; you buy it when you can afford it. If you need meat, you have your own butchery somewhere in the market place.

*According to Rouhonen (1999), the state stores controlled about 75% of the retail trade.* Part of the state retail system was the so-called *berjzhkas*, i.e. stores that had a wider assortment of product than normal stores (Kaipio, & Leppänen 2005). However, the so-called *berjzhkas* were not accessible to the general public, targeted to tourists and few circles of elites in the Soviet Union. In these kinds of stores were typically small, and purchases could only be made with foreign currency (Kaipio, & Leppänen 2005). Alternative forms of foodstuff trade were the co-operative system in the countryside and the *kolkhoz* (or collective farm) marketplaces (Kaipio & Leppänen 2005). A common feature of retail trade during the Soviet era was that demand exceeded supply many times. Consequently, long queues in front of shops were a common scene. In addition, black market existed and it was in fact the most effective distribution channel (Rouhonen 1999: 179–181) cited in Kaipio and Leppänen (2005). In the aftermath of the Soviet Union, the retail trade structure was disrupted and fragmented and fragmented. Gorbachev's rise to power (perestroika, glasnost) created the possibility for Russians and foreigners to engage in retail trade in Russia. Presently, in Russia, there is abundant supply of everything on the market even more than in Finland. You can basically buy anything if you have the money.

Due to the relatively low entry and exit costs, potential entrants may be able to enter or exit the market quickly. The first supermarket was opened in 1995 by Sedmoj Kontinent (Kaipio & Leppänen, 2005). Overall, the Russian grocery market remains fragmented compared to Western countries as many of the chains are not clearly positioned in terms of format and brand (Belaya & Hanf 2010; Planet Retail 2013; Tuominen et al. 2009). From the year 2000, retail trade in Russia had undergone major transformation especially in large cities like Moscow and St. Petersburg. Today, traditional and modern retail concepts coexist in the Russian market (Belaya & Hanf 2010; Lorentz et al. 2006; Lorentz & Lounela 2011). The traditional retail models (see Goldman 1959; Taylor 1994; Menkhaus, Yakunina & Herz 2006; Louhivuori 2006). The large size of Russia means that there are many small towns where modern retailing is almost non-existent, thus, government support to encourage consumer spending and lack of competition offer the opportunity to easily develop loyal customers.

The share of modern retail outlets in the Russian market has grown rapidly in the past decade as both domestic and foreign retail chains have appeared and expanded (Lorentz et al. 2006; Tretyak & Sheresheva 2004). Market concentration in Russia is very low due to the countries size and the very fragmented retail sector



(Larimo & Huuhka 2008). Modern retail in Russia is dominated by domestic chains such as Magnit, O'key and X5 retail Group. Besides these two firms, there are some large international retailers such as Stockmann, Auchan, Metro Group and Rewe Group. The concentrations of majority of modern grocery stores are located in Moscow and St. Petersburg and big regional cities where per capita figures are a lot higher than the national average, about three and two times high respectively. However, modern retail has recently begun to expand into the densely populated regions of Russia which has 42 cities, of 500,000 or more people such as the Nyzniy Novgorod and Volga regions and industrial cities such as Ekaterinburg and Tyuman in Ural and Novosibirsk in Western Siberia (AT Kearny 2013). It is believed that small, independent shops including kiosk and open markets including street vendors still capture a combined 67 percent of the Russian retail market (Planet Retail 2013).

#### 5.2.1 *The current situation in retail trade*

At the moment, modern retail trade in Russia is growing fast, \$300 billion in yearly-sales market and it is the biggest consumption market in Europe (GAIN 2013). Modern retailing in Russia comprises many large retail chains both domestic and international operating through the country. Russia has fast growing middle class which is forecast to reach 40 percent of the population by 2020, larger than all other BRICS countries (Brazil, Russia, India, China and South Africa) (GAIN 2013). Russia joined the WTO in August 2012 and committed reducing and binding import tariffs on all agricultural products thereby bringing the country's legal and regulatory framework in line with internationally accepted practices. The retail sector in Russia is among the strongest and the most important consumer-oriented domestic sectors. In 2012, a record opening of more than 3,000 new retail spaces of Russian grocery chains entered the market. According to Rosstat, in January to March 2013, about 94 percent of Russian trade turnover is contributed by modern retail formats such as hypermarkets, supermarkets, and discounters (GAIN 2013). The role of open-air markets and older Soviet-style stores including wet markets are diminishing in patronage and popularity and are losing market share to modern retail. The average consumer spends roughly 40 percent of household budget on food costs, which is twice the European average. According to Rosstat a 4.4 percent increase in retail sector revenues was reported in March 2013 alone, against 4.2 percent in January 2013.

According to (GAIN 2013), the Central Federal District, including Moscow metropolitan area remains the top regions in terms of retail revenue, contributing roughly one-third of total sales in Russia. Moscow metropolitan area has the

highest urbanisation level of 81.7 percent, comprising 310 cities with a population of 59.3 people per square kilometre, which is seven times the Russian average (GAIN 2013). The Volga Federation District, the second biggest retail market in Russia, accounted for 18 percent of the country's turnover. The smallest retail market is the Russian Far East with a population concentration of one person per square kilometre. The district accounted for less than 4 percent of total turnover in 2012. Moscow has been rated as the third most attractive city for international retailers of all kinds after London and Paris, according to a study of 150 top international retailers in 55 countries in Europe carried out by Jones Lang Lasalle (GAIN 2013). According to INFOLine's report *FMCG Retail in Russia*, cited in (GAIN 2013), in January to November 2012, the number of stores of the leading 120 fast moving consumer good (FMCG) retailers in Russia have risen to 3,052. The growth was primarily driven by Russian federal and regional retailers even as the expansion of foreign retail chains decelerated.

The Russian retail sector is very fragmented, with the top 8 international retailers including: X5 Retail Groups, Magnit, Auchan, Metro Group, Dorinda Holding, Lenta, Dixie Group, and Seventh Continent chains controlling less than 20 percent of the market (GAIN 2013). Growth in the Russian retail sector continues to be headed by big domestic chains with annual revenue more than \$2 billion. Dixie Group pursued active organic growth by launching new stores. In the first half of 2012, X5 Retail Group opened 171 new chains while shutting down 12 stores. At the same time Tenda ZAO launched 272 new stores under its Magnit brand. The leading retailers in Moscow include X5 Retail Group, Dixie Group and Sedmoi Kontinent. The St. Petersburg retail market is almost saturated and dominated by O'key, Lenta and X5 Retail Group (Planet Retail 2013).

Domestic retail heavyweights such as Magnit, X5 Retail Group, Seventh Continent and Dixie are still among the top Russian retail players. Nevertheless, foreign retailers, including the German Metro AG and the French Auchan and others have gained considerable market share during the last ten years. During the recent economic crisis in major retail chains experience positive development despite the decline in the retail sector as a whole. By the end of 2010, the total retail market was at the same level it was before the economic crisis of 2008. Russia represents an attractive market for foreign retailers for the reasons that include: favourable environment (market under growth/change, most consumers actively seeking price and convenience, relative weakness of the competition, favourable legislation); and the novelty of the supermarket and hypermarket formula (Roberts 2005).

As the retail market in big cities in Russia become very competitive, developers have started to focus on cities with population of less than 5000,000 people. Presently, the most attractive cities for retail space developers are located in oil-oriented regions, such as Tyumen, Surgut and others (The Moscow Times, 11 March 2013). In addition, developers found the resort area of Sochi attractive because of the 2014 Olympic Games. According to Real Estate Quarterly report in its third quarter of 2012 edition, (The Moscow Times, 11 March 2013), developers are building warehouse space in key southern hubs like Rostov-on-Don and Krasnodar but future development depends on the entry of big retailers who largely account for 60 percent of total demand for warehouse space. Strong competition in main cities like Moscow and St. Petersburg means that it will take some time before new stores break even. Expansion into the Russian countryside or smaller towns is likely to be costly and difficult due to low income levels, low population density, bureaucratic bottlenecks, and poor retail infrastructure, warehousing and logistics system.

Due to low income level among the larger population in Russia (particularly in small cities and towns) and the country's geographical structure, independent supermarkets and neighbourhood stores will continue to play a bigger role in the national food supply chain (Planet Retail 2013). The same holds true for the open markets, although both channels (including kiosks, small sales containers and street vendors) have been modernised or closed due to changes in the law in 2012. A further decline in the numbers of kiosks continued in 2013 when the government banned sales of beer in kiosks as alcohol and tobacco products may represent as much as 80% of kiosk's sales (Planet Retail, 2013). According to Baltika breweries report, 27,556 kiosks were closed in January 2013 (Planet Retail 2013). The number of kiosks in Russia could decline more than halve in the next few years as the government plans to ban the sale of tobacco in kiosks from June 2014.

### 5.2.2 *Retail formats in Russia*

There are generally six different types of retail store formats that are commonly employed in developed markets (Arnold 1983). This can also be found in Russia, and they are described in short below.

*Discount stores* stress low prices and use volume procurement with low profit margin. They usually carry limited product assortments and the quality of product is reflected in the price level. They are generally located in areas with large population. The typical store size is below 400 m<sup>2</sup>. Some of the Russian retailers like Diksi Group, O'Key's Da! Pjaterochka, Kopeika and Magnit call themselves 'dis-

counters' or 'soft discounters' (Lorentz 2004; Retail Planet 2013). However, their share of private label products and store efficiency is very low compared to discount stores in Western and Central Europe (Retail Planet 2013).

*Convenience stores* emphasise location close to the customer and flexible opening hours. Prices are usually higher than in most other formats. The store size is usually small. The first convenience store in Russia was open by Mosmart in 2007. However, the retailer encountered financial problems and closed its store network in 2008. The convenience store scene is currently shaped by X5 Retail Group, which tested its Perekrestok Express convenience store format through a joint venture with Express Retail in 2008–2009. X5 Group eventually acquire the remaining share from its joint venture partner in 2010 and it is planning to expand its network to Moscow (Retail Planet 2013). Supermarket operators generally benefit from convenient locations in residential areas.

*Supermarkets* offer a wide assortments, quality products and often good customer service. They stress the ease of shopping, i.e. one-stop-shopping. Some supermarkets are located in area of large population while some are located outside of residential areas that can be easily reached by car. Small supermarkets have the size of 400–999 m<sup>2</sup>; large ones over 1000 m<sup>2</sup>. Examples of these in Russia include Sedmoi Kontinent, Perekrestok, Dixie, Spar and Prisma. The major consumer targets for low cost supermarkets such as Pyaterochka and Monetka include low-income households, students and the elderly (GAIN 2013). These consumers generally do not own a car, and therefore normally prefer to shop in retail outlets closest to home.

*Hypermarkets* combine the features of discounters, supermarkets and warehouse operations on one location. They offer low prices and broad assortments and are normally located outside of city centres often in a place with easy access by car. Hypermarkets have a size of 2500 m<sup>2</sup>, where not less than 35 percent of the space is devoted to sales of non-food products. Examples of these in Russia include Auchan, O'Key, Lenta and Prisma. Hypermarkets target car-owning households of all income levels who look for high-quality products, more services and wider product assortments.

*Retail warehouses* utilise large scale, low rent and isolated buildings with minimal services and low price. They are usually large in size. These are not easily identifiable in Russia at the moment (Kaipio & Leppänen 2005).

*Cash and carry (wholesale)* represents a type of retail operation within the wholesale sector aimed specifically at trade customers. It is a form of trade in which the goods are sold from a wholesale warehouse which is operated on either on a self-

service basis, or on the basis of samples. It is generally large-scale big-box stores offering a wide range of goods, mainly grocery but including some non-grocery items. They serve customers such as retailers, professional users, and institutional buyers etc. Invoices are paid on the spot in cash, and customers carry the goods away themselves. An example of cash and carry (wholesale) in Russia is Metro Group, Selgros and Coop.

*Department stores* emphasise location in the city centre. Unique features are good service and high quality products. The target customers are usually the well-off, or the middle class and the upper class. The store layout is usually organised into different departments according to the merchandise offered. The stores size is over 1000 m<sup>2</sup>. They may also operate as flagship and act as an anchor to other tenants. They may also be specialised in certain products or cover a wide range of products. An example of flagship and general type of department store selling also food in Russia is Stockmann.

New forms of retail format that has appeared in Russia recently are *outlet mall, entertainment parks, and retail parks* (The Moscow Times, 13 November 2012).

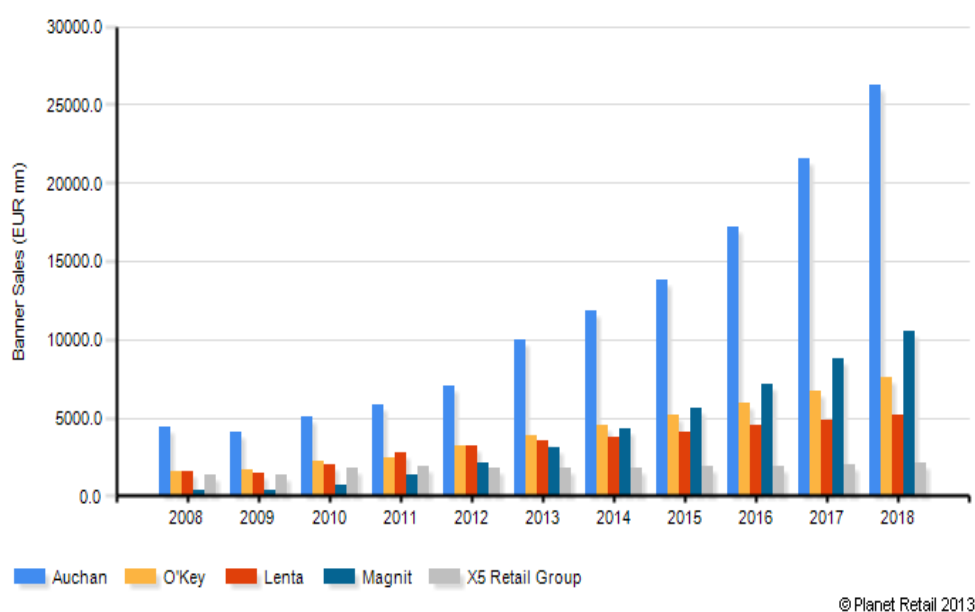
### 5.2.3 *Retail channel leaders*

Russia is currently witnessing the rise of new consumer channel in the form of hypermarkets and superstores, and supermarkets and neighbourhood stores. Hypermarkets, supermarkets, and discounters have been the popular formats, and have boosted modern retail business during the past few years. However, their rate of expansion varies from retailer to retailer.

#### *Hypermarkets and superstores*

The hypermarket sector was growing from 2005 to 2008, when both domestic as well as were expanding in Moscow, St. Petersburg and regional cities with more than one million people. The market leader in hypermarket format is Auchan, which has established its stronghold in Moscow and through the acquisition of the Ramenka hypermarket (formerly owned by Migros Turk) but also in some regional cities aided by the acquisition of Metro Group's Real in 2012. After successfully operating large stores with sales areas of about 13,000 square metres, in 2009 Auchan introduced a smaller, price oriented superstore concept called Radouga (Planet Retail 2013). After testing this format for a period of time, Auchan began to roll out this concept in small cities in Central Russia in 2012. Apart from Radouga, Auchan plans to triple its hypermarkets number by 2016 and end the year with up to 150 stores. The other foreign market players in the hypermarket

scene are Lotte (with one department store), Globus and S Group's Prisma. *Kesko* after delaying opening of *K-Rouka* hypermarket for a few years finally opened its first store in St. Petersburg in December 2012. Among the largest domestic hypermarket chains are O'Key, Lenta, X5's Karusel and Magnit, the latter of which run compact hypermarkets with a sales area of around 4,000 square metres (Planet Retail 2013). Compact hypermarket is seen as the future format, and some foreign retailers such as Auchan have already understand this trend and started to develop stores with sales area varying between 4,000 to 6,000 square metres.



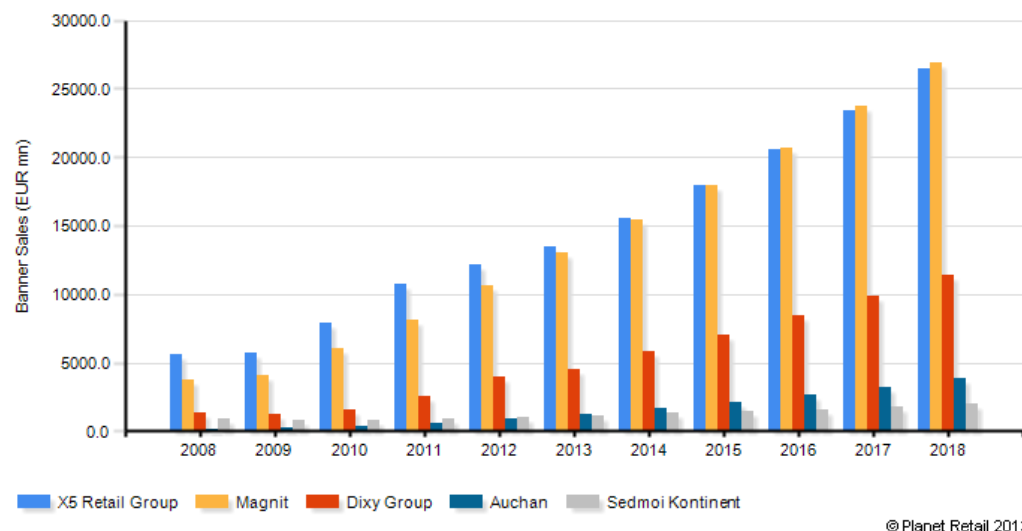
**Figure 4.** Hypermarket and superstores  
*Source:* Planet Retail (2013)

Hypermarkets in Russia are in the form of shopping galleries with mostly foreign or independent food and non-food outlets as well as restaurants. These boosts the hypermarket's total attraction to customers by making it possible for them so spend whole afternoons shopping with everything they need in one location (Planet Retail 2013). Russian retailers have started to open hypermarkets as anchor tenants in shopping malls rather than building their own shopping centres (Planet Retail 2013). The so-called "family shopping", when large quantity of products are bought on a weekly basis, has become very popular in Russia. In 2011, hypermarket sales grew by 20.4 percent compared to 2010 to reach \$24 billion (GAIN 2013). The hypermarket sector remains solid in the hands of large operators. Nine main hypermarket chains including O'Key Auchan, Karusel and Lenta controlled 79 percent sales in 2011 (GAIN 2013). The larger market share belong to Auchan, (22.7 percent) followed by O'Key (13.3 percent) and Lenta

(11.3 percent). The Karusel group, which was takeover and integrated into the X5 Retail Group in 2011, held 9 percent of the total hypermarket segment sales.

#### *Supermarkets and neighbourhood stores*

Supermarkets compete with hypermarket, convenience stores and independent small grocers as they target the same consumer groups. The supermarket and neighbourhood food retail area is in the hands of the two Russian retailers- X5 Retail Group and Magnit. Magnit is leader in terms of store numbers. The supermarket and neighbourhood stores scene is clearly in the hands of the two leading domestic chains, X5 Retail Group and Magnit. Magnit is the leader in the supermarket and neighbourhood sector in terms of store numbers (Planet Retail, 2013). X5 Retail Group operates price oriented Pyaterochka supermarkets and neighbourhood stores, larger Perekrestok supermarket and a premium Green Perekrestok format. With around 3,400 outlets, X5 maintains a strong position in St. Petersburg, Moscow and the Ural region, while Magnit holds a dominant market position in Southern Russia (Planet Retail 2013). X5 operates around 6,000 supermarkets and neighbourhood stores with an average sales area of 250 square metres.



**Figure 5.** Supermarkets and neighbourhood stores  
*Source:* Planet Retail (2013)

Most of the stores are located in several small towns where no other modern grocers have established yet. Other less important players are Dixy Group; Moscow based Sedmoi Kontinent and O'Key. Auchan, Rewe Group's Billa, and S Group's Prisma are the only foreign supermarket operators. Billa opened its first store in

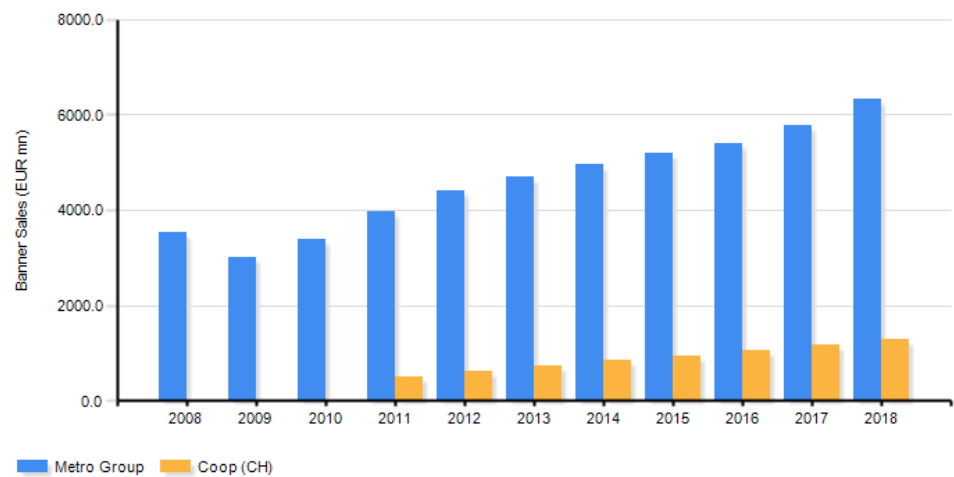
2004 as part of joint venture with domestic retailer Marta holding. As Marta Holding went bankrupt in early 2009, Rewe has started to develop its own supermarket chain. Rewe has been expanding successfully although at a much slower pace than its competitors. The pace of S Group's Prisma international expansion is fast. In 2012, five new Prisma stores opened in St. Petersburg. In addition, a logistics centre opened in St. Petersburg. In all, S Group's Prisma had 14 Prisma stores in St. Petersburg, nine supermarkets and five hypermarkets (S Group Annual report, 2012:32).

In 2011 and 2012, two supermarkets were opened each year, and in addition, one hypermarket in 2011 and three hypermarkets in 2012. Prisma is not planning to put the brakes on the expansion, but, for example, in St. Petersburg the total number of stores will be approximately 30. Thus, only the halfway mark has been reached so far. (S Group Annual Report, 2012:32). In 2011, supermarkets accounted for the largest retail sales growth within grocery retailing segment with 22 percent growth to reach \$84 billion (GAIN 2013). X5 Retail Group remained the top player through its Pyaterochka and Perekriostok chains. In total, X5 contributed accounted for 25.8 percent share of retail sales in supermarkets in 2011 compared to 17 percent in 2010 (GAIN 2013). The supermarket sector is generally fragmented with nine main players controlling 36 percent of the market. The remaining sales were contributed by smaller chains as well as independent grocery retailers.

#### *Cash & carry and wholesale clubs*

The cash & carry and wholesale club sector is clearly in the German-based metro Group, which since entering the market in late 2001 has already opened over 60 outlets in Moscow and St. Petersburg, Central Russia, Southern Russia, Urals and Siberia (Planet Retail, 2013). Metro plans to expand in Western and Central Siberia and in cities with more than 500,000 inhabitants. In addition, Metro tested and launched a cash & carry concept with a sales area of around 3,500 square metres. The first store was launched in 2012 focus on fresh food, and higher private label share. The store aimed exclusively at service traders with a narrower assortment of around 3,000 products (Planet Retail 2013). Another less major player is CO-OP Switzerland, which acquired Rewe Group's Selgros cash & carry stores in 2010. X5 Retail Group launched its hybrid compact hypermarket/cash & carry store concept under the name Pyaterochka-Maxi in 2010. However, the format showed to be inefficient, so all six stores were converted to Karusel hypermarket in 2012 (Planet Retail 2013).





**Figure 6.** Cash and carry and wholesale clubs  
*Source:* Planet Retail (2013)

In 2011, three companies operated cash and carry outlets in Russia: German Metro Group, Rewe Group and domestic-based Dixie Group that operates only one cash and carry outlet, Kesh. In 2011, Dixie acquired Victoria Group, of which Kesh originally belong. Total cash and carry sales increased by 12 percent in 2011 and accounted for \$4.8 billion (GAIN 2013). Metro Group is the market leader in cash and carry segment in Russia. In 2011, the company accounted for 94.5 percent of total cash and carry sales in Russia (GAIN 2013). COOP (Selgros) opened 2 stores in 2011 and currently operates 6 stores in Russia and expects to open up to 50 cash and carry stores over the coming 20 years (GAIN 2013).

#### 5.2.4 Domestic competition

Solmon and Tordjman (1989:17) predicted several years ago that “multinational retailers will expand into those countries where they possess a competitive advantage over the local competition”. Such advantages may come from unique retail concepts, information systems, warehousing and logistics capabilities, buying power, a privilege relationship with an important supplier network, knowledge operating in a particular market, merchandise know-how, or unique corporate culture, among others. Gaining such knowledge over local retailers is however, by no means assured in Russia as it has proved to be in countries such as Poland, Hungary, Romania, and the Czech Republics.

Domestic retailers in the food retail industry range in size with big chain supermarkets or hypermarkets, such as OJSC Magnit, X5 Retail Group, and Sevent

Continent, exercising power over smaller specialty, luxury or organic food outlets whose hold on the sector is significant but currently limited. Consequently, the financial power of industry players varies depending on the type of player. Large-scale, and established retailers with operating business that derive significant advantage from economies of scale and ability to use aggressive pricing schemes that cannot be pursued by smaller retailers, enjoy considerable advantage. Among the largest hypermarket chains are O'Key, Lenta, X5's Karusel and Magnit.

Magnit operates compact hypermarkets with a sales area of around 4,000 square metres. Magnit is a retailer and distributor of food and consumer goods in Russia. The group offers 700 private label products through different formats of stores. Magnit enjoy 4.5 percent market share in 2012 and has pursued a "balanced" strategy and has grown in recent years to become one of Russia's largest by sales. Solid growth rate of 27-29 percent year-on-year enabled the company to successfully expand into new geographical areas including the Moscow region. Revenue for the year ended December 31, 2013 was \$18.20 billion, compared to \$14.43 billion for the year ended 31 December, 2012. Gross profit for the year ended December 31, 2013 was \$5.19 billion compared to \$3.83 billion for the year ended 31 December, 2013. As of September 2013, the group had 7,646 stores in 1,763 locations all over Russia (MarketLine 2013).

Magnit operates its stores in four different formats: convenience stores, hypermarket, Magnit family store and cosmetic store. The convenience stores attend to customers living within 500 metres radius of the store. As of September 2013, the group has 6,783 convenience stores. Magnit hypermarket formats are basically focused on customers living in cities with population from 50,000 to 500,000 people and with the radius of seven kilometres from the store. The hypermarkets are located in the city (within the city suburbs). As of September 2013, the group operated 148 hypermarkets. Magnit Family stores focus on customers in wider assortment and aggressive pricing in premises which are not conducive for a standard hypermarket due to limited space. The stores are located at shopping malls and entertainment malls. As of September 2013, the group has 30 Magnit Family stores. Magnit Cosmetics stores provide a mix of non-food range of products such as personal care products, household cleaning products, cosmetics and perfumery goods. As of September 2013, the group operated 865 Magnit Cosmetic stores. Most Magnit stores are located in the Southern, North-Caucasian, Central and Volga regions. The group also operates stores in the North-Western, Urals and Siberian regions (MarketLine 2013). Magnit operates an in-house logistics system of 19 distribution centres for storage and optimisation of goods and a fleet of 4,969 vehicles moving long-distance cargo all over the European part of Russia. Magnit's strategy differs from its close rival, X5 Retail Group.

Another major domestic operator of retail grocery stores is X5 Retail Group. X5 Retail Group is one of Russia's biggest food retailers in terms of sales of \$16 billion in 2012. The group operates a store network of about 4,031 soft-discount, supermarket, hypermarket and convenience stores under the brand names of Pyaterochka, Perekrestok, Karusel and Perekrestok Express. Over the last ten years, X5 has pursued high income consumers in Russia's biggest cities, where prime locations are difficult to find and competition is fierce. In mid-2000s X5 grew through mergers, which was not an efficient way for building its operation and managing distribution network of stores (GAIN 2013).

The company operates stores in Moscow, St. Petersburg and other regions of Russia, including 3,419 soft discount stores, 378 supermarkets, 79 hypermarkets and 155 convenience stores. Pyaterochka, the soft-discount brand is the largest of X5's formats with over 3,200 stores by the end of 2012 accounting for about 65% of the total net sales for the year. The company also operates about 439 direct franchise stores in Russia. The company also operates an online retail channel, E5.ru. The main competitors of X5 Retail Group include Sed'moy kontinent, Dixy and Magnit. Revenue for the year ended December 31, 2013 was \$16.78 billion, compared to \$15.79 billion for the year ended December 31, 2012. Profit for the year ended 31 December 2013 was \$344.9 million, compared to a loss of \$126.5 million for the year ended 31 December 2012.

Lenta, another domestic retailer is a privately owned company involved in the operation of hypermarket chain stores. It operates 67 hypermarkets and five supermarkets occupying 440,000 square metres of retail trade space throughout Russia in 39 cities. Lenta provides logistics, warehousing, and consignment transport and forwarding services. The company mainly operates in Russia, and its headquarters is located in St. Petersburg. The firm's reported revenue for the year ended December 31, 2012 was approximately \$3,552.3 million. Its net profit was approximately \$166 million at the year-end December 31, 2012.

O'Key Group basically operates hypermarkets and supermarkets under the brand name O'Key. As of December 31, 2013, the company operates 94 stores with a total trading space of approximately 487,000 square metres. The company's reported revenue for the year ended December 31, 2013 was RUB 139,460.4 million against RUB 117,333.2 million the previous year. Operating profit for the year ended 31 December 2013 was RUB 6,851.7 million against RUB 6,468.1 million the previous year.

Dixy is Russia's fifth largest (by sales) food retailer. The company's geographical markets are central, north-western and Ural regions. The company reported 7 per cent growth at the end of 2012, compared to the previous year, thus confirming the

strength of its discount retailing sector. Dixy is quite smaller than domestic giants Magnit and X5, and most of its stores are located in the central region, including Moscow. About 20 percent of its sales are believed to come from the Urals. For the past few years, Dixy has been transforming itself as a convenience retailer, and in 2012, has re-positioned itself as a neighbourhood-focused convenience retailer, having directed its focus towards pure discounting.

Seventh Continent operates supermarkets, hypermarkets and smaller stores in Russia. The company was established in 1994 and have its headquarters in Moscow. The company operates two main formats: supermarkets and hypermarkets. It operates a number of stores including supermarkets and hypermarkets in Moscow and the Moscow region in Kaliningrad region, St. Petersburg, Ryzan, Perm, and in Minsk, Belarus (MarketLine 2013). A large number of the modern grocery stores are located in Moscow and St. Petersburg. The leading retailers in Moscow include X5 Retail Group, Dixy Group and Sedmoi Kontinent. St.Petersburg's retail landscape is almost saturated and dominated O'Key, Lenta and X5 Retail Group.

#### 5.2.5 *Foreign competition*

As well as rivalry from domestic retailers, Finnish multinational retailers in Russia will also have to face increasing competition from foreign grocery retailers in the form of supermarkets, hypermarkets, and cash and carry stores. In 1998, Stockmann, the Finnish retailer opened its first department store in Smolenskaya, Moscow, Russia. The company currently has 7 department stores, one shopping centre, and one outlet as subsidiaries in Russia. Stockman department store has no direct competitor in the department store segment (concept) in Russian at the moment. As from the year 2000, foreign retailers have been showing increasing interest in Moscow and St. Petersburg and other regional cities. After Migros Türk, which arrived in the Russian market in the late 1990s, and exited in 2007, the early 2000s marked the entry of international big retailers such as Germany's Metro Group and French Auchan entered the Russian market. Tengelmann, another German grocer, followed in the later part of 2003 with its OBI and DIY store banner and on franchise basis. The Rewe Group arrived in the Russian market in September 2004, launching its Billa supermarket chain in a joint venture arrangement with Marta (followed by the acquisition of 16-strong Prodmak in early 2005) (Retail Planet 2013). In the later part of 2006, another German retailer, Globus opened its first store.

In 2007, South Korean company Lotte launched its first store in Moscow, Finnish retailer Rautakira opened its kiosks, and DIY retailer Kesko opened its first K-

Rauta store in St. Petersburg. Late in 2008, another Finnish retailer S-Group launched its first Prisma (Case C) hypermarket in St. Petersburg, and Rewe Group opened its COOP (Selgros) cash & carry format in the Moscow region (Rewe Group sold 50% of its share in Selgros to COOP Switzerland in 2010) (Planet Retail 2013). Prisma, the Finnish grocery retailer currently has 5 hypermarkets and 9 supermarkets in Russia. All the stores are situated in St. Petersburg and its surroundings. Prisma plans to have 30 stores in Russia. Prisma's direct foreign competitor is Auchan, and its local competitors include O'key- O'key Express (supermarket), and X5- Perekrestok (supermarket), Karusel (hypermarket) and Pjatortska (Discount).

The Finnish retailer, Kesko has 4 grocery stores, 14 K-Rauta stores, and 20 Inter-sport stores in Russia. In addition to the four stores currently in operation, the company plans to open three new big stores in St. Petersburg area by the end of 2014 and then to continue in the St. Petersburg metropolis area and then to the Moscow area. The objective of Kesko is to achieve net sales of €500 million and a positive result by 2017. Other foreign retailers are eyeing the Russian market. COOP Norden, the Swedish retailer plans to enter the market for along term, but that plan has not materialised yet. Likewise, IGA announced its entry into the Russian market by 2009, but that plan has been put on hold. The German retailer, Schwarz Group has also made known its intention to enter Russian market, but so far, that intention has not been realised. As well as new entries into the Russian market, that has also been some exits of big players from the market.

The German Edeka (Marktkauf) sold its stores to Metro Group in 2006 and Migro Türk sold Ramenka supermarket to its joint venture partner Enka. Enka leased 13 hypermarkets and sold one hypermarket to Auchan in 2007. Foreign retailers such as Auchan and Metro Group have a strong presence in Russia, but in the past three years both Wal-Mart and Carrefour, the world number one and two retailers respectively, have exited from the Russian market. The French retailer Carrefour opened its first store in Russia in Krasnodar, but sold it in the same year owing to the lack of prospects of becoming a market leader (Planet Retail 2013). In 2012, Metro Group, a global giant, sold its entire Real hypermarket stores to Auchan. The American retail giant, Wal-Mart have been studying the Russian market since 2005, and opened an office in Moscow, however, it closed that office in 2010, following unsuccessful attempt to acquire Lenta and Kopeika.

**Table 7.** Top five retail chains in Russia in 2013

Company	Number of Outlets	Total Sales Area SQM	Average Sales Area SQM	Grocery Banner Sales (EUR)	Grocery Spending Market share
Magnit	8,020	2,998,670	374	15,070,221,904	6.10
X5 Retail Group	4,347	2,180,084	502	14,475,467,738	5.86
Auchan	212	832,100	3,925	8,104,650,667	3.28
Dixy Group	1,904	634,146	333	4,541,667,939	1.84
Metro Group	72	532,800	7,400	3,415,284,067	0.71

*Source:* Planet Retail (2013)

The Russian food retail market has enjoyed strong, double digit growth in recent years and this is predicted to continue in the future. Sales generated through hypermarkets, supermarkets, and discounters are expected to be the most profitable for the Russian food retail market. Hypermarkets, Supermarket, and Discounters form the leading distribution channel in the Russian food retail industry accounting for a 44.7% share of the total industry value (MarketLine 2013). The Russian food retail industry grew by 8.2% in 2012 to reach a value of \$329.9 billion, accounting for annual growth rate (CAGR) of 11.1% between 2008 and 2012 (MarketLine 2013). The performance of the market is forecast to grow with an expected (CAGRs) of 11.9% for the period 2014–2017, which is expected to drive the market to a value of \$577.8 billion by the end of 2017.

**Table 8.** Russia food retail industry value: \$ billion, 2005–17

Year	\$ billion	RUB billion	€ billion	% Growth
2005	125.3*	3,992.5*	90.1*	
2006	153.3*	4,886.7*	110.3*	22.4%*
2007	192.2*	6,126.2*	138.3*	25.4%*
2008	216.2	6,340.1	156.2	28.5%*
2009	238.4	6,991.8	172.2	10.3%
2010	267.9	7,857.5	193.5	12.4%
2011	304.8	8,940.8	220.2	13.8%
2012	329.9	9,675.0	238.3	8.2%
2013	377.7	11,076.6	272.8	14.5%
2014	420.9	12,344.5	304.1	11.4%
2015	468.1	13,729.8	338.2	11.2%
2016	520.4	15,261.9	375.9	11.2%
2017	577.8	16,947.8	417.4	11.0%
<b>CAGR: 2012–17</b>				11.9%

*Source:* MarketLine (2013)

*Source:* Datamonitor (2010)\*

Comparatively, the French and German markets will grow with compounded annual growth rate (CAGRs) of 1.5% and 1.5% respectively, during the same peri-

od, to reach respectively values of \$253.1 billion and \$310.3 billion in 2017 (MarketLine 2013). In 2017, the Russian food retail industry is forecast to have a value of \$577.8 billion, an increase of 75.1% since 2012 (MarketLine 2013).

#### 5.2.6 *Russian consumers*

In the Soviet Union era, quality was not given priority. In addition, due to scarcity of goods, products of inferior quality could also be sold. Demand always exceeded supply due to inefficient production system. Today, there is no shortage of supply and the Russian consumers have a wide assortment of high quality products to choose from, according to their incomes. Russians consumers in general appreciate quality and they are willing to pay for it (Kaipio, & Leppänen, 2005). In addition, Russian consumers are characterises as actively consuming, increasingly price-sensitive, and brand aware, “young” middle class woman. Russian consumers are not willing to pay for products priced excessively. According to (Kaipio & Leppänen 2005), in a survey conducted among 1500 Russian consumers, 44% of the respondents considered price as the most important factor influencing their purchasing decision of food products, 52% found quality the most important factors, and 4% decline to answer.

Russian consumers are also considered more polarised on the basis of income than in Finland. In other words, income is unevenly distributed among the population. While few people are extremely rich, majority of the population lies below the pervert line. Increased inequality results in a situation in which some consumers can afford, and want, to spend more money on food and make their purchasing decisions based on their individual needs and preferences. For others, the lowest possible price will be the most important factor. The grocery trade must simultaneously be able to accommodate both consumers who value affordable prices and those who prefer high quality and personalised options. Thus, price is still a major determinant in choosing between different products among the consumers belonging to the lowest-income group. Furthermore, consumers the high-income group are also considered to be price-sensitive. For instance, if consumers perceive two or more products to offer the same value, they will consider carefully which product to choose.

Consumers in different parts of Russia are also suggested to differ remarkably. For instance, the major difference between the people in St. Petersburg and Moscow is that St. Petersburg consumers are more conservative in the sense that they do not easily change their consumption habits (Kaipio & Leppänen 2005). Muscovites on the other hand like to try everything new. Because of the conservative shopping habits of consumers in St. Petersburg, it takes time for new products to

penetrate the market in St. Petersburg than in Moscow (Kaipio & Leppänen 2005). In addition, consumers in St. Petersburg are also considered to be more patriotic than Muscovites. Another example of the difference between consumers in St. Petersburg and Moscow is the suggestion that “there are high-consumers in Moscow, who would never shop in discounter outlets, all they want is more expensive Moscow-based retail chains” (Kaipio & Leppänen 2005). On the contrary, it was found that such a mentality does not exist among consumers in St. Petersburg, thus people shop at both discounters and expensive outlets.

There is also the view that Russians in general have impulsive shopping behaviour. However, this is expected to change in the future as people learn to plan their spending more carefully (Kaipio & Leppänen 2005). Products were targeted for the wealthy segment did not suffer from the crisis so badly or at least revived from it quite rapidly. Russian consumers are also considered to be less brand-loyal, as they like to try everything new. In the future, quality will become even more important as more people move up into the middle class and consumers income rises. As the middle class continues to grow in Russia, it might affect discounter chains more than other chain that target the middle class segment of the population. This is because their competitive advantage is low price with not much quality.

Russian consumers are increasingly favouring Russian food products instead of foreign ones. There has also been a fast growth of health consciousness, together with an increasing number of Russian consumers favouring more ethical or organic range of goods. This provides attractive avenues for new entrants looking to move into niche areas that offer inbuilt protection from pricing pressures and mainstream marketing. The presence of many large-scale retailers in Russia, who benefited from the security of heavy branding, means direct head-to-head competition is extremely difficult for new retailers.

On a nationwide basis, retail sales in accounted for about 70% of consumer spending in 2011, which is very significant when compared with Western European and Central European standard (*Planet Retail 2013*). This is due to the fact that the overall cost of living in Russia continues to be lower than in Western Europe or North. This is because most Russian live in government apartments which became their own after the collapse of the Soviet Union. Thus, they pay little rent or no rent at all. In addition, Russians do not have huge mortgage or credit card debts. As a result local consumers can only spend a relatively small part of their incomes on non-retail items, such as property, cars, holidays, health and education.



### 5.2.7 *Russia's retail regulatory framework in brief*

The retailing situation in Russia differs from Finland in the sense that the sector is liberalised, which allows foreign retailers to enter the market easily. The retail sector in Russia is somehow liberal with less restriction as compared to other countries such as France, Germany, Italy, and Japan. There are no strict restrictions on foreign ownership of land plots which may affect retail companies. Although the land acquisition process may be more bureaucratic than the law would have suggest. There is also less restriction of store opening hours in Russia, and retailers wishing to open 24 hours, seven days a week, can easily do so, and some retailers are actually doing so. There are also no material restriction on retail store sizes; it is a matter of negotiation between the landlord and the retailer. However, it is worth noting that the Russian has taken control not only over the key industries such as gas and oil, but also retail.

Russia has introduced retail law which substantially regulates retailers' expansion in the regions and controls contracts between retailers and manufacturers. The law prevents grocery retailers from opening or leasing new stores in Moscow and St. Petersburg and other larger cities, where their market share is higher than 25% (Retail Planet, 2013). The law applies to all retailers with an annual turnover over RUB 1 billion (USD 32 million). The bill also put a ceiling on the amount of bonuses that suppliers can pay to retailers to 10%, but will no longer oblige retailers to publish a list of suppliers and purchasing prices after President Dmitry Medvedev's administration relaxes the law. The government will have the right to set prices on "socially significant" items, such as food staples, if they rise by over 30% within a month. The law came into use on 1 February 2010.

Sale of Vodka and beer in kiosk had been banned in 2012. The ban is to be expanded to cover tobacco products as of June 2014. In 2009, permission from 34 local authorities and around 60 forms had to be filled in to open a grocery store. The bureaucracy has not improved since then (Retail Planet, 2013). From late 2012, Russian retailers are permitted to directly and legally hire foreign citizens to make up to 25% of its total labour force. In April 2013, the Russian prime minister, Dmitry Medvedev signed many amendments to the law on Foreign Investment in Strategic Enterprises. The new amendment will eliminate the requirement for a Federal Anti-Monopoly Services (FAS) approval, which was earlier, mandated for all deals involving a foreign firm and a state controlled entity.

The overall expansion of international retail activity in Russia has been increasing in the past few years. The country has signed a new foreign direct investment (FDI) laws to improve the investment climate, but its laws to curb corruption are deficient. The judicial system has been ineffective and weak since the fall of the

United Soviet Socialist Republic (USSR), (Panina & Bierman 2013). The institutional environment presents many political, legal, economic, and social challenges to foreign retailers. As Hyder and Abraha (2008) pointed out, even the territories within Russia and the states within the former Soviet Union differ markedly among themselves. Therefore, strategic alternatives for the international retailer to respond to regulatory, normative and cognitive pressures from the institutional environment of Russia in the context of retailing could also be expected to differ. The next section presents the background of the case firms and the results of the study.

### 5.3 Summary

In conclusion, this section provides analysis of the Russian retail landscape. During the Soviet era, there were only government operated supermarkets called *berjzhkas*, which were accessible only to tourist and few circles of elites. Alternative forms of foodstuff trade were the cooperative system in the countryside and marketplaces. Transformation from planned to market economy resulted in implementing policies that favour foreign direct investment. Gorbachev's rise to power (*perestroika*, *glasnost*) created the possibility for Russians and foreigners to engage in retail trade. Russia is currently witnessing the rise of new consumer channel in the form of hypermarkets and superstores, and supermarkets and neighbourhood stores. Hypermarkets, supermarkets, and discounters have been the popular formats, and have boosted modern retail business during the past few years. However, their rate of expansion varies from retailer to retailer.

From the year 2000, retail trade in Russia had undergone major transformation especially in large cities like Moscow and St. Petersburg. Today, traditional and modern retail concepts coexist in the Russian market. The share of modern retail outlets in the Russian market has grown rapidly in the past decade as both domestic and foreign retail chains have appeared and expanded. Modern retail in Russia is dominated by domestic chains such as Magnit, O'key and X5 retail Group. Besides these two firms, there are some large international retailers such as Stockmann, Auchan, Metro Group and Rewe Group. Presently, in Russia, there is abundant supply of everything on the market even more than in Finland. You can basically buy anything if you have the money. Russia has fast growing middle class which is forecast to reach 40 percent of the population by 2020, larger than all other BRICS countries.

Due to low income level among the larger population in Russia (particularly in small cities and towns) and the country's geographical structure, independent su-

permarkets and neighbourhood stores will continue to play a bigger role in the national food supply chain. Supermarkets compete with hypermarket, convenience stores and independent small grocers as they target the same consumer groups. The supermarket and neighbourhood food retail area is in the hands of the two Russian retailers- X5 Retail Group and Magnit. The cash & carry and wholesale club sector is clearly in the German-based metro Group, which since entering the market in late 2001 has already opened over 60 outlets in Moscow and St. Petersburg, Central Russia, Southern Russia, Urals.

Domestic retailers in the food retail industry range in size with big chain supermarkets or hypermarkets, such as OJSC Magnit, X5 Retail Group, and Sevent Continent, exercising power over smaller specialty, luxury or organic food outlets whose hold on the sector is significant but currently limited. As well as rivalry from domestic retailers, Finnish multinational retailers in Russia will also have to face increasing competition from foreign grocery retailers in the form of supermarkets, hypermarkets, and cash and carry stores. Foreign retailers such as Auchan and Metro Group have a strong presence in Russia, but in the past three years both Wal-Mart and Carrefour, the world number one and two retailers respectively, have exited from the Russian market.

Russians consumers in general appreciate quality and they are willing to pay for it (Kaipio, & Leppänen, 2005). In addition, Russian consumers are characterised as actively consuming, increasingly price-sensitive, and brand aware, “young” middle class woman. Russian consumers are not willing to pay for products priced excessively. Furthermore, Russian consumers are also considered more polarised on the basis of income than in Finland. In other words, income is unevenly distributed among the population. While few people are extremely rich, majority of the population lies below the pervert line. Consumers in different parts of Russia are also suggested to differ remarkably. For instance, the major difference between the people in St. Petersburg and Moscow is that St. Petersburg consumers are more conservative in the sense that they do not easily change their consumption habits. The retailing situation in Russia differs from Finland in the sense that the sector is liberalised, which allows foreign retailers to enter the market easily. The retail sector in Russia is somehow liberal with less restriction as compared to other countries such as France, Germany, Italy, and Japan. There are no material restrictions on retail store sizes; it is a matter of negotiation between the landlord and the retailer. The overall expansion of international retail activity in Russia has been increasing in the past few years. The country has signed a new foreign direct investment (FDI) laws to improve the investment climate, but its laws to curb corruption are deficient. The judicial system has been ineffective and weak since the fall of the United Soviet Socialist Republic. Thus, the institutional environ-

ment can present many political, legal, economic, and social challenges to international retailers. The next section presents the background of the case companies for the study.

## 5.4 Background of case firms

This section describes the background of the case companies for this study. In order to maintain anonymity of interviewees and to preserve confidentiality of company information, the real name of the case companies have been replaced with a pseudonymous name and respondents are referred to simply as “interviewee” in the interview quotes. This study focuses on the subsidiaries of Finnish multinational retailers in Russia. The names of parent company of the subsidiaries of this study are: ADORA and TONIKO. The subsidiaries of ADORA under investigation in Russia are Adora Russia and Zomaya Russia, and the subsidiary of TONIKO under investigation in Russia is Palela Russia. First, a description of the background of the parent company will be provided. This is followed by a description of the background of the three cases i.e. Adora Russia, Zomaya Russia and Palela Russia, which are the focus of this study and here after referred to us Adora, Zomaya and Palela.

### 5.4.1 *Background of parent company: ADORA*

This section provides a brief background of ADORA Group, the parent company of both Adora and Zomaya. Both Adora and Zomaya are wholly owned subsidiaries of the ADORA Group. The focus of this study is the subsidiary in Russia. ADORA Group is a Finnish listed company engaged in the retail trade. ADORA was established in 1882 and celebrated its 150<sup>th</sup> anniversary in 2012. ADORA has been at the leading edge of retailing throughout its 150-year history, with its customer-focused and profit-oriented operations. The firm’s business divisions are the Department Store Division and the Fashion Chain Division. The Group’s revenue in 2012 grew by 5.5 per cent to EUR 2,116.4 million. The Group’s operating profit increased to EUR 87.3 million at the end 2012. As the firm’s business has expanded and become more international, the strategic emphasis has also shifted somewhat, even though profitable growth has always been the main focus of the firm’s strategy. The international dimension is today an important factor in the success of Group’s operations. According to the ADORA Group’s 2012 Annual Report, the year 2012 was in fact the first year in Group’s 150-year history when the company’s revenues abroad exceeded its revenue in Finland. ADORA is listed on NASDAQ, OMX Helsinki, with approximately 56000 shareholders. The com-

pany's operations are well established, particularly in the Nordic countries, Russia and Baltic countries. As a result of the unstable economic situation in Europe, ADORA's international expansion has more decisive role to play in the company's profitable growth strategy.

Currently, the ADORA Group has 16 department stores in 4 countries and over 700 fashion stores in sixteen countries. ADORA has operations in Europe, Russia and Asia. ADORA department stores' vision is to be the best European department store chain in terms of selection, customer service, store milieu and profitability (ADORA Annual Report 2012). ADORA's department stores operate in Finland, Russia and Baltic States (Estonia, Latvia, and Lithuania). ADORA department stores offer one stop shopping experience with excellent quality and competitive prices for a wide group of customers. The division mainly offers fashion products, cosmetics, food products, leisure products, home ware, electronics, books and stationery.

In the year 2012, the department store division's revenue increased by 5.3 per cent to EUR 1302.0 million. Operating profit was EUR48.0 million, up EUR 12.8 million from the year before. Profitability improved particularly in foreign markets. ADORA has two fashion chains: Atilo and Zomaya, which in total have 689 stores in 16 countries at the end of 2012. Atilo's business idea is to offer inspiring affordable fashion. Atilo is one of the leading chains in Europe, with 489 stores in 16 countries. The division offers a range of women's wear, lingerie, children's wear, footwear, accessories and cosmetics. Zomaya offers an extensive selection of international fashion for women, men, and children. Zomaya's target is to be the bold challenge in international fashion markets. The Zomaya fashion chain has 220 stores in Finland, Russia and Baltic countries.

#### *5.4.2 Background of parent company: TONIKO*

This section provides a brief background of TONIKO, the parent company of Palela. TONIKO is a Finnish-based cooperative retail and service group. The TONIKO Group consists of the cooperative enterprises which are owned by regional cooperatives, and its subsidiaries. The cop members or customers, own the regional cooperative enterprises, which in turn own the central organisation. The group offers services for the supermarket trade, service station store and fuel trade, the department store and specialty store trade, the tourism and hospitality business, the motor trade accessories as well as the agriculture trade. It is also involved in banking services. The supermarket trade includes operations in Estonia, Latvia, Lithuania, and Russia. In Estonia, the operations consist of five Palela stores in Tallin and the stores of Narva and Tartu. In Latvia, there are two Palela

supermarkets. In Lithuania, there is one Palela store in Vilnius and another one in Kaunas. The supermarket trade is provided in the Baltic areas as well as in St. Petersburg through its subsidiary, Palela. The subsidiary, Palela Peremarket, owned by the TONIKO Group, expanded its operations to the city of Narva in the north east of Estonia in 2009. In the same year, TONIKO opened its third Palela supermarket in St Petersburg. TONIKO Group opened its first Lithuanian Palela hypermarket in the capital Vilnius. The background information of the three case firms is presented in Table 9.

**Table 9.** Basic information on the case firms

	<b>Adora Russia</b>	<b>Zomaya Russia</b>	<b>Palela Russia</b>
Country of origin of study firm	Finland	Finland	Finland
Core retail sector of study firm	Department store	Clothing	Food
Operational format	Department store	Apparel	Supermarket/ Hypermarket
Main entry mode into Russia	Organic growth	Organic growth	Organic growth
Year of entry into Russia	1989/ 1998	2004	2008
Number of stores in Russia	7	46	14
Size of Subsidiary in Russia (2012):			
<b>Sales in Russia</b>	322.7 (EUR million)		466 (EUR) million*
<b>Employees in Russia</b>	600		860
Number of countries present	4	6	5
Position of Interviewees	Country Manager	Country Manager	Country Manager
Parent company	ADORA Group	ADORA Group	TONIKO Group
Size of Parent (2012):			
<b>Revenue (Whole Group)</b>	2, 116.4 (EUR million) 1, 302.7(EUR million))	2,11.4 (EUR million) 2,11.4 (EUR million)	12,037 (EUR million) 7,545.1 (EUR million)
<b>Revenue (Own Division)</b>			
<b>Operating profit (Whole Group)</b>	87.3 (EUR million) 48.0 (EUR million)	87.3 (EUR million)	-24 (EUR) million)
<b>Operating profit (Own Division)</b>		-1.0 (EUR million)	419 (EUR million)
<b>Employees (Group)</b>	16 ,000	16, 000	43,417

Sales including Russia and Baltic States\*

### 5.4.3 *Background- Adora in Russia*

Adora is a Russian subsidiary of ADORA Group, a Finnish-based company engaged in the retail trade. The company has seven department stores, one shopping centre, and two outlet stores in Russia. The first Adora store in Russia was opened in GUM Moscow in 1989. In 1998, Adora's first department store in Smolenskaya, Moscow, Russia was opened. This store was later closed in 2008. The late 1990's was a particularly difficult period for the firm, as well as to other international retailers because of Russia's crisis which started in August 1998. In 2004, two department stores in Moscow, Mega South and Mega North were opened, and in 2005, the Nevsky Shopping Centre project in St. Petersburg was started. The third department store, Mega East in Moscow was opened in 2007, and In 2009, Adora's fourth department store, Metropolis in Moscow was opened and in 2010, the fifth department store in Rostokino, Moscow, opened. In the same year, the sixth department store at Nevsky Centre in St. Petersburg was opened and in 2011, the seventh department store in Ekaterinburg, Russia was opened. The Nevsky Centre and St. Petersburg department store is the flagship of ADORA's department stores in Russia. The Adora Nevsky Centre property is fully owned by Adora.

In its expansion into Russia, the parent company of Adora bought the land plot from a German developer SPAG who initially owned the land plot and were planning to build a shopping centre on the same land plot. In the beginning of 2000, the parent of Adora Russia was searching for a land plot for its departmental store in the city of St. Petersburg. In 2006, the German developer SPAG encountered some financial problems and decided to terminate the project and sell the land plot. In 2006, the parent of Adora entered into a negotiation with the German developer SPAG and purchased the project and the land plot from SPAG. The project by SPAG was quite different from Stockmann's project so the company made a new plan from scratch. In 2008, ADORA received construction permits from the city officials and started the construction works, and in 2010, Adora Russia department store was opened. The total investment in this project was approximately €185 million.

The total floor space is 100 000 square metres, and retail space is 50 000 square metre. Adora Russia department store area is 20 000 square metres and leasable office area is 5 000 square metres. The technical area including packing space for 560 cars and technical and public area is 58 000 square metres. Adora Nevsky Centre has 78 commercial tenants in 7 floors 100 percent leased, and office tenants in 2 floors, 88 percent leased. In total, the Nevsky Centre has 12 floors. Seven floors are for tenants, two floors for office, and three floors for packing. The

St. Petersburg Adora department store is a flagship in Russia and has 20 000 square metre in size compared to Adora's departmental stores in Moscow which has the size of 9000–12000 square metres, approximately, double of the size of other department stores. The main merchandise area covers fashion, cosmetics, home decoration, footwear and accessories, consumer electronics, everyday goods, and food. The department stores offer wide range of international brands, from premium to medium-low segments; and ADORA's own brands complete the selection.

#### *5.4.4 Background- Zomaya in Russia*

Zomaya was founded in a small town in Finland called Kuusankoski in August 1930. Zomaya was one of the first Finnish retail chain operators and they started establish stores networks first in Finland and later on started to expand to foreign markets. Zomaya started to expand nationally and later internationally already in the 1970s. The company had some stores in Germany and New York in the early stages of their operation. In 1988 Zomaya was acquired by the ADORA Group and turnover of ADORA at that time was 2 billion euros. Following the acquisition, Somaya has four times the number of stores and the growth still continues.

At the end of 2012, Zomaya's revenue was at the same level with previous year, at EUR 143.1 million. 65 per cent of the revenue came from Finland where sales grew positively until the summer but were clearly lower than expected for the rest of the year. In 2011, 65% of sales came from Finland and 35% from abroad and 22% from Russia and Ukraine. Revenue in the Baltic countries grew during the whole year whereas in Russia revenue was down. Zomaya's operating profit was EUR -1.0 million, which is EUR 2.4 million less than in 2011. The result includes EUR 0.4 million in non-recurring costs due to the closure of operations in Ukraine. The declined profit were due to a lowered gross margin and weak sales, which were unable to cover the fixed operating costs in Finland or in Russia (ADORA Annual Report 2012). The declined gross margin was mainly due to continuous price-driven campaigns, which were used to attract visitors to the stores.

Several measures have been implemented to improve profitability, as part of the new Fashion Chain Division's initiatives. Zomaya's strongest growing product group in 2012 was children's wear which was supplemented with an additional Baby collection in the spring. Sales of accessories were on a par with the previous year but sales of women's and men's wear declined. Zomaya's designs are created by Zomaya's own experienced fashion designer team. A collection called Hornblende created by the well-known Finnish designer Tiia Vanha Tapio was



introduced in late 2012 for Zomaya's customers. Zomaya's own designers create 12 collections annually, and over 5000 unique Seppälä products per year.

The first store in Russia was opened in 2004 in Adora's department store, Mega South Moscow. The first store in St. Petersburg was opened in 2005 in Ramstore shopping centre, and in 2006, the regional expansion started with two stores in the city named Ryazan which is somewhere close to the central part of Russia. By April 2012, Zomaya already have 47 stores in 16 Russian cities. In total there were 220 stores in five countries at the end of the year 2012. In Russia, the differentiation of Zomaya stores can be observed by area with 11 stores in Moscow located in malls close to Adora department stores, and those which are separately located. Zomaya has 15 stores in St. Petersburg, 3 store in Ekaterinburg and 19 stores in other sixteen cities, and two stores in Siberian part of Russia. Zomaya opened four new stores in 2012: two in Finland, one in Russia and one in Estonia.

The Zomaya chain begun a comprehensive remodelling in autumn 2012 aimed at bringing an opportunity for the brand to change its course, and also to improve earnings and profitability. The remodelling focused on the target groups and product range and on marketing and store concepts. The outcome of the project will be important to the growth and success of Zomaya. The Fashion Chain Divisions' capital expenditure was EUR 220.0 million in total in 2012, most of which was used in new store openings. In addition 13 unprofitable stores were closed down. Zomaya is still the fashion chain with the widest store coverage in Finland with stores in almost 90 municipalities. Zomaya's main target groups are women of age 25–35 interested in fashion, and of the middle class. Zomaya's collections are affordable priced fashion for women, men, teenagers, and children. Packed with extensive assortments and fun shopping experience, each store offers everyday fashion for customers of every age and size.

*The country manager for Zomaya subsidiary in Russian is a Russian. She graduated from St. Petersburg State University, with a Master's degree in International Management. She first worked as brand manager at Promod and Jennyfer fashion brands in St. Petersburg from 2004–2005. She later joined Zomaya-Russia as area manager from 2005–2007, and as country manager from 2007 till present. The country manager is responsible for leading and developing sales in Russia and leading managers; local staff training and guidance in line with Zomaya organisational culture, efficient cooperation with all headquarter divisions, and budgeting. Sales organisation is localised in Russia, and administration services from the headquarters in Helsinki. Logistics is centralised in Vantaa, Finland, replenishments services in Russia. The growth strategy of Zomaya involves moderate expansion in the near future consisting of opening approximately three to four stores*

annually in 2012–2013, focus on St. Petersburg and Moscow and nearby cities during 2012 and 2013. Furthermore, the company focus on continuous monitoring of profit, and closing down of unprofitable stores, refurbishing existing stores, developing the offering to various markets and stores, recognising differences in customer needs and behaviour, launching new product groups, increasing comparable sales in all countries, and strengthening the brand.

#### 5.4.5 *Background: Palela in Russia*

Palela is part of the TONIKO Group, a leading retail group in Finland. Palela in St. Petersburg is a Finnish grocery chain with several supermarkets and hypermarkets in St. Petersburg area. Palela entered the Russian market in June 2008 and established operation in St. Petersburg. Palela is a wholly owned subsidiary of the Finnish-based TONIKO Group. The company started operations from scratch in April 2008 and basically set up the management team, got product certification, customs clearance, secure government permission, recruit employees, and secure 3300 contracts with suppliers. *The current country manager for Palela- Russian subsidiary has been living and working in St. Petersburg for the past twenty four years.* The current country manager is the person who established the operation of Palela in St. Petersburg from the start to the present. She also witnessed the transformation of the retail sector from the Soviet era to the present day.

In 2008, Palela opened two units, one supermarket in Moskva, and one hypermarket in Novoe Devyatkinno in St. Petersburg. In 2009, two units were opened, Zvezdnaja supermarket and Konstitutsija supermarket. In 2010 two units were opened, Baikonurskaja and Kolpio supermarkets. In 2011, three units were opened; Ligov and Varshavski express supermarkets, and Osinovaja Rosha hypermarket. In 2012, five new Palela stores opened in St. Petersburg, two supermarkets and three hypermarkets. In all, Palela has 14 stores in St. Petersburg, nine supermarkets and five hypermarkets (TONIKO Group Annual report 2012: 32). After a successful market entry in the Russian market in 2008, Palela has been cultivating their market presence steadily. The high growth market is dynamic environment with active and modern consumers and strong competition. The pace of Palela's international expansion is fast. In addition, a logistics centre opened in St. Petersburg. Palela is not planning to slow the expansion; rather, the total number of stores in St. Petersburg is expected to reach approximately 30. Thus the company is only halfway the expected number of 30 stores (TONIKO Group Annual Report 2012: 32).

In Russia, Palela has two concepts the moment namely hypermarket and supermarket. However, in Finland, there are more concepts, but Palela have not brought those into Russia. The supermarket concept in Russia has a trading floor space of 1 000–4 000 square metres, and the hypermarket concept has a trading floor space of 4 000–10 000 square metres. The supermarket concept has wide assortment (different prices categories) of groceries in key product groups or stock keeping units (SKU) of 30 000–33 000. The hypermarket concept has wide assortment (different price categories) of groceries in key product groups (SKU 45 000–60 000). The hypermarket concepts offer non-food products for regular routine shopping that can be sold as groceries without services (home, children products and clothes, clothes for everyday use). Today, the staff of Prisma amount to 860 employees.

Recently, Palela-Russia has decided to start using Tieto's Mobile Shopper service to increase loyalty and brand awareness. The Mobile Shopper App was launched for Palela customers in January 2012 and is the hypermarket chain's first mobile shopping service for customers. As part of their active market strategy, Palela in St. Petersburg wanted to offer a new, interactive communications channel for the loyal customers to be able to attract them to the store more frequently and build their active brand image. The Mobile Shopper is delivered as-a-service and with its ready-made functionalities it offers an agile as well as cost efficient marketing channel.

## 5.5 Summary

The main goal of this section was to describe the background of the case companies for this study. The background of the parent company of the subsidiaries in Russia which form the unit of analysis for the presented study was presented. The study focuses on the subsidiaries of Finnish multinational retailers in Russia. In order to maintain anonymity of interviewees and to preserve confidentiality of company information, the real names of the case companies were replaced with a pseudonymous name, and respondents referred to simply as "interviewees". The parent companies are represented by the name: ADORA and TONIKO.

The subsidiaries under investigation in the Russian market are referred to as: Adora, Zomaya, and Palela. ADORA is the parent company of Adora and Zomaya, and TONIKO is the parent company of Palela. The ADORA Group business divisions include department store and fashion chain division. The ADORA Group's operations are well established, particularly in the Nordic countries, Russia and Baltic countries. The international dimension is an important factor in the

group's profitable growth strategy. Adora and Zomaya are wholly owned subsidiaries of ADORA. Adora department stores offer wide range of international brands, from premium to medium-low segments. Zomaya has 15 stores in St. Petersburg and 11 stores in Moscow. In total, Adora has 7 department stores in Russia.

The TONIKO Group is a Finnish-based cooperative retail and service group. The group offers services for the supermarket trade, service station store, department store and specialty store trade. The supermarket trade includes operations in Estonia, Latvia, Lithuania, and Russia. Palela is a wholly owned subsidiary of TONIKO Group. Palela is involved in supermarket and hypermarket trade and has operations in St. Petersburg and Baltic countries. Palela plans to open 30 stores in Russia. The firm currently has 14 stores in Russia. Due to the small size, fierce competition, and saturation of the Finnish market, Finnish retailers see the Russian market as challenging, but at the same time, a potential market for growth. The next section presents the results of the study.

## 6 RESULTS

This chapter presents the results of the empirical analysis of the interview data. The interview data has been coded manually (see discussion in section 4.6) and categorised along four strategic response choices identified as emerging from the interview data. The empirical analysis of the interview data which has been coded into first-order categories, which represent institutional pressures, and second-order categories, which represent specific strategies, and aggregate dimensions, which represent strategic response choice to institutional pressures are shown in Figures 7, 8, 11 and 15. The presentation of the results of the study is done along Figures 7, 8, 11 and 15 which shows the manual codes, first-order categories, second-order themes and aggregate dimensions for: compliance strategy; selection strategy; creation strategy; and cooperation strategy. The presentation of the results is organised as follows. First, cross-case analysis of retailers' strategic responses to the institutional environment is presented. Second, cross-case analysis of retailer legitimacy is presented. Next, cross-case analysis of retailer performance is presented. Finally, cross-case analysis of firm and decision makers' characteristics influencing retailer strategic responses to institutional pressures and performance is presented.

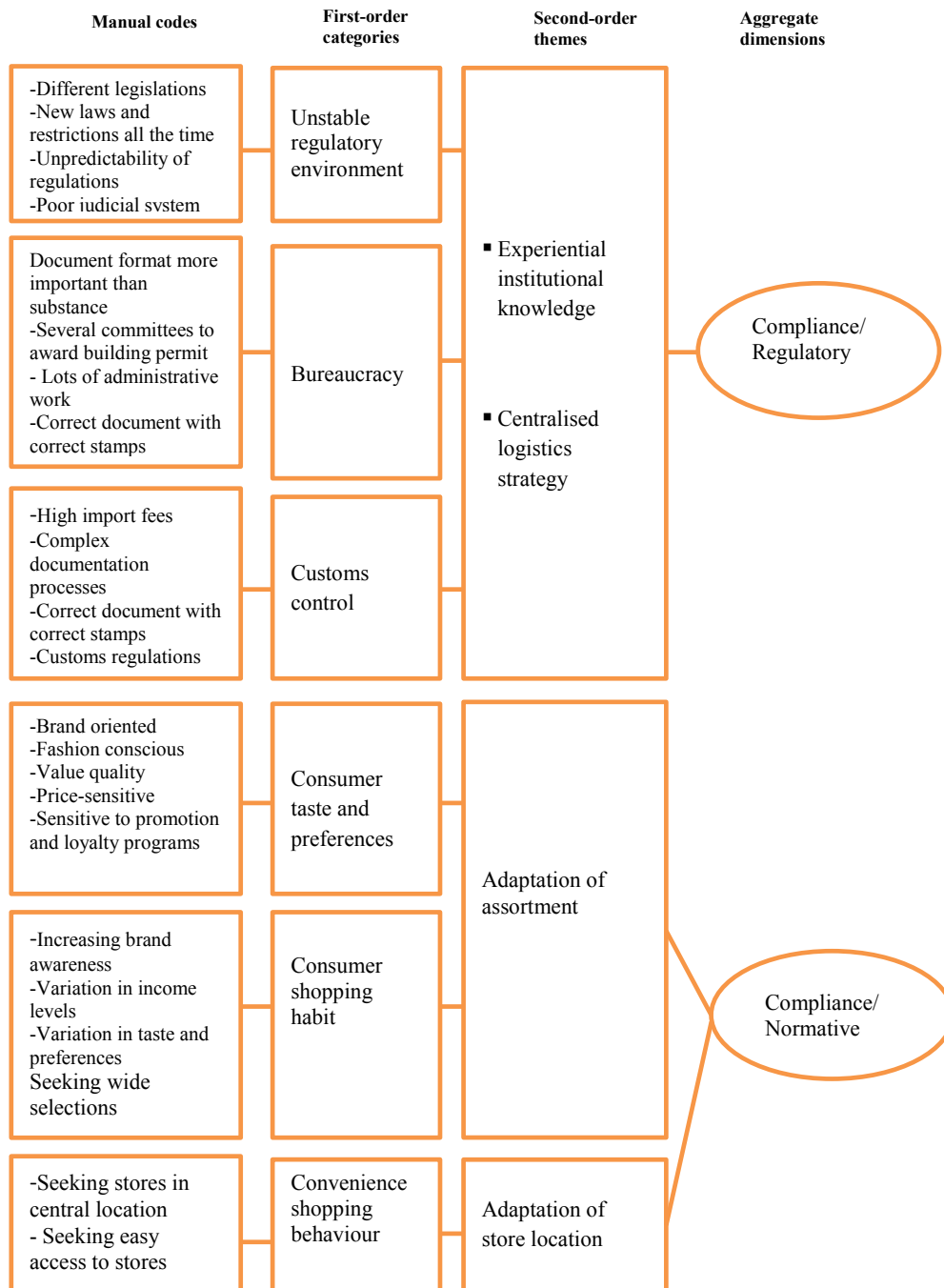
### 6.1 Cross- case analysis of strategic responses to the institutional environment

*Research question one of the study inquire into what are the strategic choices for the multinational retailer to respond to regulatory, normative, and cognitive pressures from institutional environment in an emerging economy?* The results of the empirical study (Figures 7, 8, 11, 15) indicates that subsidiaries of Finnish multinational retailers in Russia employ four different strategic response choices: (1) *compliance*; (2) *selection*; (3) *creation*; and (4) *cooperation* to respond to three types of institutional pressures: regulatory, normative, and cognitive. The only exception is creation and cooperation strategy in response to regulatory institutional environment, and compliance, selection, and cooperation strategy in response to cognitive institutional environment. The following sections present these 7 dimensions and the institutional pressures and the strategies related to them and explain the main results that emerged from the interview.

## 6.2 Strategy 1 – Compliance to the environment

This section presents the results concerning the strategy of compliance to the institutional environment. Figure 7 show the manual codes, categories and sub-categories and the themes that emerge from the interview data for compliance strategy. The first-order categories show regulatory and normative pressures from the institutional environment. The second-order categories show the specific strategies retailers employ in response to these pressures, and the aggregate dimensions show the strategic response choices retailers employ in response to regulatory and normative pressures from the institutional environment.

According to Suchman (1995), by developing practices that conform to established institutional norms in their environment, an organization may improve its transparency, thereby increasing the likelihood that outsiders will view the organization as desirable, proper, appropriate, and thus legitimate. Compliance refers to the conscious obedience to or incorporation of values, norms, or institutional requirements (Oliver 1991). Compliance is an especially strategy (Oliver 1991) by which subsidiaries of Finnish multinational retailers follow the regulatory, normative, and cognitive rules and norms for establishing favourable conditions for market entry as well as for developing business relationships and legitimacy in Russia's market in post-entry. The interview data suggests that subsidiaries of Finnish multinational retailers experience three types of regulatory pressures in Russia's market: *unstable regulatory environment*, *bureaucracy*, and *customs control*; and four types of normative pressures: *consumer taste and preferences*, *consumer shopping habits*, and *convenience shopping behaviour*. In addition, the interview that suggests that subsidiaries of Finnish multinational retailers comply with regulatory pressures by deploying two strategies: *institutional experiential knowledge and centralisation of logistics*; and comply with normative pressure by adopting two strategies: *adaptation of assortment*, and *adaptation of store location*.



**Figure 7.** Examples of manual codes, first-order categories and second-order themes for compliance strategy

### 6.2.1 *Compliance - regulatory environment pressures*

Concerning regulatory rules, three major themes emerged from the interviews to characterise regulatory pressures and two major themes to characterise the strategic actions pursued by Finnish multinational retailers. The three major themes which characterise regulatory pressures are: (a) unstable regulatory environment; (b) bureaucracy; and (c) customs control. In addition, the strategy of experiential institutional knowledge and centralisation of logistics strategy emerged as strategic actions taken by Finnish retailers in compliance to the three regulatory pressures identified. The evidence from the case data suggest that the unstable regulatory environment, bureaucracy, and customs control requirements present significant challenges to subsidiaries of Finnish multinational retailers in Russia.

The interviewees mentioned that there are frequent changes in the law all the time and the judicial system is inefficient. For example, interviewees of Adora, Zomaya and Palela mentioned that customs tariffs on goods imported into Russia are very high. Interviewees of Adora, Zomaya and Palela also stated that the unstable regulatory environment present major challenges. Interviewees also stated their firms faced many administrative paper work concerning securing building permits and running the daily operation of the company. Customs control was also mentioned by interviewees as presenting major challenge to importing goods into Russian. A reflection how the unstable regulatory environment, bureaucracy, and customs control pose challenges to Russian subsidiaries of Finnish multinational retailers are illustrated by the following quotes:

RESEARCHER: Please can you describe the regulatory challenges that your company face during the establishment face in Russia?

INTERVIEWEE: "I would say that there are current challenges but in brief, I would say that there exist quite different legislations and bureaucracy. And in legislation, it is basically that they are unpredictable, and there is always new laws and new restriction coming and going all the time, and that is quite a big challenge operating here in Russia. It is much more stable in Western countries that you can trust that if a law is implemented, it will be there still in the future. This is one major challenge here in legislation in Russia. And then bureaucracy, I would say that documentation and partly the document format are more important than the substance of certain issues. For example, it is important that you have the correct document with the correct stamps which is the most important thing here, and after that comes what happen in practice. This is the challenge in bureaucracy and legal legislation" (Interviewee, Adora).

"Customs regulations, rental level, high bureaucracy level resulting in different unnecessary but obligatory fees, which don't take place in other countries. From bookkeeping, mostly, the bureaucracy in Russia is very



big, for example in Finland you have one paper for reporting, but in Russia you have bunch of papers. I think this is one of the major difficulties” (Interviewee, Zomaya).

“We have to be very careful with the documentation, if there is a small mistake in the delivery document then our trucks will be stacked at the border. So basically the customs and border control is the most risky part. For example, if there are some documents missing or mistakes in the documents, you might get your delivery trucks blocked at the border and your delivery would be delayed” (Interviewee, Adora).

“The challenge for us is custom clearance which is not easy in this country, [Russia] and it has been made things complicated, so it has its challenges but we have managed to bring in mainly everything we need” (Interviewee, Palela).

RESEARCHER: Concerning the construction phase of your stores till the time you have the permit, what are some of the challenges that you have faced?

INTERVIEWEE: “You mean like licenses, at that time, I wasn’t here. But basically, it was never easy here in Russia to secure permits from officials. It took like two years to secure those licenses. And there was also a public discussion after we build our store at that the building was too high, but we have complied with all the requirements in the law regarding the structure of the building” (Interviewee, Adora).

“There are several committees that award construction permits and so forth, but I don’t know the exact documents and the process, because we have not done that by ourselves. You need to work within the law concerning company establishment. You need like two months and then it is done” (Interviewee, Palela).

The interview data clearly indicate that subsidiaries of Finnish multinational retailers in Russia experience regulatory pressures regarding frequent changes in the law, bureaucracy and customs control requirements. The above empirical evidence is consistent with previous research (e.g. Chadee & Roxas 2013; Panina Bierman 2013; Puffer & McCarthy 2011), who asserted that legitimate market-based formal institutions that may have gained the trust of the international business community are still sorely deficient and formal institutional void has persisted in Russia. Prior research has shown that lack of clear direction and instability in the law has created a volatile environment for managers, as have the corrupt law enforcement and judicial systems (Panina & Bierman 2013), and weak capital market institutions and poor protection of private property rights which are basic to proper functioning of a market economy (Puffer & McCarthy 2011).

This findings is also in line with Chadee and Roxas (2013: 23) who noted that regulatory quality, which they refer to as the bureaucratic rigidities that firms face in dealing with government agencies when applying for permits or licenses to conduct a specific business activity (Norton 1998) are still big challenge for firms doing business in Russia. Regulatory quality refers to the extent to which compliance with the prevailing laws, rules, and other government regulatory procedures impose unreasonable burdens on firms (e.g. Fogel & Zapalska 2001; Geiger & Hoffman 1998; Gnyawali & Fogel 1994). Researchers have noted that bureaucratic inefficiencies increase the unnecessary costs incurred by businesses in government-business exchanges (Chadee & Roxas 2013). These costs include direct financial cost as well as time and effort spent in the completion of these transactions (Ali, Fiess & MacDonald 2010; Fogel, Hawk, Morck & Yeung 2006; Puffer, McCarthy & Boist 2009).

Previous studies have identifies a number of practices which undermine the regulatory system in Russia. They include the predatory behaviour on the part of tax authorities, the existence of multiple inspection agencies with arbitrary regulatory powers, and lack of an effective system for businesses to seek redress for complaints (Ahlstrom & Bruton 2010; Aidis & Adachi 2007; Chadee & Roxas 2013). Other studies (Aidis & Adachi 2007; Puffer, McCarthy & Boisot 2009; Aidis, Estrin & Mickiewicz 2008) have also shown that a poor regulatory quality imposes huge transaction costs on businesses, and negatively impacts business start-ups, firm survival and overall business growth and development in Russia.

### 6.2.2 *Compliance strategies in response to regulatory environment*

*Experiential institutional knowledge-* Complexities of the institutional environment of Russia suggest that subsidiaries of Finnish multinational retailers in Russia pursue alternative strategic choices in response to the three regulatory pressures identified above. The international retailing literature suggests that firm resources influence the ability to respond to pressures from the external environment (Evans, Mavondo & Bridson 2008; Evans, Tradgold & Mavondo 2000; Vida & Fairhurst 1998). Firm resources are defined as assets, processes and knowledge that allow managers to design and implement efficient and effective strategies (Daft 1982). A vital resource is experiential knowledge, which represents accrued hand-on skills, or experience that allow managers to operate effectively and efficiently (Von Hippel 1988). Evidence from the interview data suggest that subsidiaries of Finnish multinational retailers in Russia comply with the regulatory pressures identified regarding compliance to the regulatory environment by using their *experiential institutional knowledge and centralised logistics*

system. Eriksson et al. (1997) refers to institutional knowledge as “experiential knowledge of government, institutional framework, rules, norms and value” (Eriksson et al. 1997:343).

Due to the fact that different laws and new restrictions are being passed all the time and unpredictability of regulations in Russia’s market, the internationalisation model rest on the assumption of imperfect knowledge on the part of decision makers in the internationalisation process. This lack of knowledge concerns the institutions to be found in Russia’s market, i.e. governments, bureaucracies, and the manner in which business is conducted. A reflection of how *experiential institutional knowledge* and *centralization strategy* on the part of Finnish multinational retailers facilitates compliance to the three regulatory pressures from the institutional environment is illustrated by the following quotes:

RESEARCHER: How were you to able cope with the bureaucracy, unpredictable changes in legislations, and customs requirements?

INTERVIEWEE: “Partly, we have some connections that we can estimate what will happen. But basically, there is still certain risk that things are changing and we just have to adjust. Of course, our history here in Russia helps that we can predict certain issues which are happening here and legislation as well” (Interviewee, Adora).

RESEARCHER: This history of operating in the Russian market, how does it help in predicting the unpredictable changes in legislations in Russia?

INTERVIEWEE: “We have strong knowledge here in the Russian market, but maybe I am not the right person to discuss with, for example, we have our development director who can answer this question. But basically, the local knowledge is the key to predicting changes in legislations. The fact is that we have been doing this quite so long already that we know the critical parts of importing goods” (Interviewee, Adora).

RESEARCHER: And this local knowledge is it accumulated by those who have been working in the Russian market for a long time?

INTERVIEWEE: “Yes, basically, we have long history of operating in Russia starting already in 1980s, with the Soviet Union in Moscow with our stores, so we have been here [Russia] quite a long time and we have been living this development of Russia. So we are not using external expertise, but we are suing internal expertise and the knowledge inside the group. Now it is much better situation than it was five years ago. Now the WTO agreement is hopefully making things much more predictable in terms of importing goods to Russia and so on” (Interviewee, Adora).

RESEARCHER: How were you to able cope with the bureaucracy, unpredictable changes in legislations, and customs requirements?

“We hire a consultant, we hire a legal counsel. Somebody goes around the offices and collect the relevant papers. Establishing a company is very easy. The main thing is the company chatter. It is just bureaucracy, there is nothing there. The major issue in retail is finding the location and the rental and everything else is just normal. There is nothing mystical there, and you need to know what you want to do. You need to know the requirements of the parent company, the company structure, and then you need to listen to people who work with company structure, then you hire a lawyer. The problems start after the establishment” (Interviewee, Palela).

“The main rules of how a Finnish supplier can get their products into our Palela assortment in St. Petersburg are the following: product is included in assortment of local dealer; product is included in assortment of Inex Partners; Palela St. Petersburg does not sign direct purchase contract with Finnish suppliers (customs clearing and logistics is centralised in Inex Partners Export); and product is certified and the package has Russian labels and packaging markings according to Russian legislation” (Interviewee, Palela).

*The empirical evidence from the interviews suggests that Adora and Palela adopt two different strategies in response to complying with regulatory pressures from the institutional environment of Russia. Adora and which had many years of experience in operating in the Russian market before establishing its department stores in Russia relied on its own internally accumulated experiential institutional knowledge to respond to the three regulatory pressures from the institutional environment namely: unstable regulatory environment, bureaucracy, and customs control. Zomaya, which is a sister subsidiary of Adora relies on the experiential institutional knowledge and logistics system of Adora.*

On the other hand, Palela which had little experiential institutional knowledge about the Russian market regarding laws and bureaucracy relating to business establishment and customs regulations had to rely on third parties who had this experiential institutional knowledge about Russia. Palela had to source the legal works of business establishment and customs issues regarding imports of goods to its stores in Russia to a Finnish logistic company (Inex Partners). After investing in a host country, a firm starts to accumulate immediate, practical experiential knowledge about customers, distributors, and local competitors (Francis, Zheng & Mukherji 2009). Under such circumstances, its own experience is a better guide of what to do and what not to do in the host country ((Francis, Zheng & Mukherji 2009).

The evidence from the interview data suggest that experience in operating in foreign markets helps to respond to institutional pressures. The above empirical evidence is consistent with previous research (Chan et al. 2011; Eriksson et al. 1997; Evans, Mavondo & Bridson 2008; Evans, Tradgold & Mavondo 2000; Vida & Fairhurst 1998) which asserted that experiential knowledge is an important resource that facilitates the international expansion process. Eriksson et al. (1997) asserted that lack of experiential institutional knowledge is problematic, as it is difficult to for the company to acquire an adequate understanding of the technical and commercial laws and norms that apply in a foreign market. The authors went on to say that “experiential institutional knowledge is not only important to know what the statute-books say, but also how the law is applied in practice in a particular time by a particular government agency. It may be a question of import and export of goods and services, tariffs, local taxes, general conditions in the market, as well as related problems and prospects” (Eriksson et al. 1997: 344). Experiential knowledge is also critical to firm performance (Kogut & Zander 1992).

### 6.2.3 *Compliance - normative environment pressures*

With regards to normative compliance, subsidiaries of Finnish multinational retailers in Russia try to satisfy local consumer preferences (Cao & Pederzoli 2013; Huang & Sternquist 2007). Regarding how compliance to the normative institutional environment of Russia is attained, three themes emerged that characterised normative pressures from the interviews: *consumer taste and preferences*, *consumer shopping habits*, and *convenience shopping behaviour*. Expansion into a new market means serving new customers and discovering new ways to produce a product and service. Consumption is clearly a socio-cultural process as much as it is an economic interaction (Wrigley & Currah 2006), therefore, international retailers need to be responsive to local variations both national and intra-national in cultural tastes, norms and preferences, which all put pressure on retailers to adapt their offerings to the foreign market (McGoldrick 1998). Due to cultural and environmental differences, consumers in Russia’s market exhibit different customer taste and preferences, shopping habits and behaviours. How normative pressures of *consumer taste and preferences*, *consumer shopping habits*, and *convenience shopping behaviour* manifested in the institutional environment of Russia is illustrated by the following quotes:

RESEARCHER: Please how would you describe the characteristics of Russian consumers?

INTERVIEWEE: “I can only talk about our consumers or customers which are related to Adora department stores. Basically, our target group is the middle class segments and that is the part that I can discuss, but I am not aware of other segments or customers. Anyway, our customers are really brand oriented, they are really, really interested in brands. They are willing to spend quite large sums of money on fashion and home products; however, they are ten times price sensitive. Furthermore about customers, brand awareness is important, and premium brands are more appreciated here in Russia than in Finland. Compared on average, for example, Hugo Boss in men’s area, we have much bigger share in Russia compared to Finland” (Interviewee, Adora).

“Our target clients are people who are not looking for cheap price, they are looking for reasonable price, and they also consider the quality of the product, wide assortments, and convenience of shopping. They are customers, who don’t go to small shops, and moreover, we cannot compete there because, we came to the market too late and thus not possible to compete at the lower end of the market” (Interviewee, Palela).

“A typical customer at our St. Petersburg department store is female; she is 30-45 years old, has a family and is from the upper middle class. “Our customers are very fashion conscious, and above all, they value quality and well-known brands- price is also an important factor.” There are 1.9 million people in the St. Petersburg area who belong to the middle class, so there are plenty of potential customers (Director, ADORA Annual Report, 2012: p. 12-13).

“Russian women style is more feminine, in shapes, in more details, and they use more accessories. Russian women prefer to wear more high heels. For example, if you look on the streets right now, you will see that most of the ladies wear high heels regardless of whether they go to work, or they go to parties, or just shopping; they mostly wear high heels. They make shapes, they use a lot of belts, and they use a lot of scarfs and a lot of small accessories to look more feminine and more in shape. This is how they differ from Finns” (Interviewee, Zomaya).

“Our customers are very fashion conscious. Above all they value quality and well-known brands – price is also an important factor.” (Director, ADORA, Annual Report, 2012: p.12).

“Russian consumers spend more money on food than Finnish consumers and they use more basic food products like raw meat, raw chicken, raw fish and fresh vegetables, than ready-made meals. I think that is the main difference. Russians use more raw ingredients than Finns” (Interviewee Palela).

“Russian consumers are much more demanding and picky. They want the best product for the best price. This is a result of high competition level in Russian retail and changing consumer spending pattern, as people are more oriented towards investments on (flats, cars) and want to spend less money on everyday shopping” (Interviewee, Zomaya).

“Russians really appreciate good food, so you can’t just put some basic stuff on the shelf and think you are ok. If you are a supermarket, you need wide assortment of products more than in Finland” (Interviewee, Palela).

“You see, there are also differences between stores inside St. Petersburg in terms of customer flows. Most of our stores which are money makers where we have big customer flow for example, the Galary here at Nevsky shopping centre and small stores which have quite less visitors. Regarding other cities, I would not say that there is big difference from marketing point of view. The difference is behaviour from the customer point of view. The things which are bought in Moscow and in St. Petersburg which are considered to be more fashionable cities are not bought for example in Carson or Samara. They are people oriented towards basic products, and here in Moscow and St. Petersburg, people are more oriented towards fashionable products and this is the difference” (Interviewee, Zomaya).

“Customers value the wide selection of products and excellent customer service provided by the Delicatessen. In addition to its selection of high quality delicacies, there are plenty of inexpensive staple groceries on offer for the wide range of customers who shop at the store” (Director, ADO-RA, Annual Report, 2012:10).

The empirical evidence from the interview suggests that Russian consumers exhibit distinctive consumer behaviours which exert pressure on the operation Adora, Zomaya, and Palela. These pressures include: preference for brand products, fashion conscious, price sensitive, value quality, and preference for convenient locations for shopping. The above empirical evidence from the interviews are in line with previous studies which suggest that due to cultural differences, consumers in different countries exhibit different customer tastes and preferences and shopping behaviours even in the same type of stores (Kim, 2001). For instance, previous researchers (Aoyama 2007; Choi & Park 2006; Coe & Lee 2006, Kim 2008; Jin & Kim 2001) found that Japanese and South Korean consumer taste and preference and shopping behaviour differ. The study by Aoyama (2007) and Kim (2008) noted that Japanese and South Korean consumers are sensitive to price, consider convenience of store location extremely important, are sensitive to seasonal changes in food items, love new products and brands, and consider freshness of fish and vegetables as extremely important. Likewise, Gandolfi and Strach

(2009) asserted that South Koreans have different consumer preferences than North Americans do.

The empirical evidence also suggests that Russian consumers taste and preferences and shopping behaviours are rooted in national, cultural, economic, and historic factors. In other words, Russian consumers shopping behaviours is influenced by the context of their' life experiences and situation factors. Stated simply, Russian consumers will make their judgements based on their own experiences and expectations, rather than in a manner relative to external environments for which they may have limited information (Griffin, Babin & Modianos 2000). For instance, Griffin, et al. (2000) examined American and Russian consumers shopping behaviours and suggested that regional and cultural differences seem to affect the way consumers evaluate product purchasing process. They noted that during the Soviet time, Samara was a "closed city" as closed cities normally had significant military importance and Samara is a centre of aviation and chemical weapons production.

Consequently, citizens within closed cities like Samara enjoyed little freedom compared to other places such as Moscow or St. Petersburg. Griffin et al. (2000) noted that Samara residents were heavily restricted in their travel both and outside the USS. Similarly, visits by foreigners to closed cities were uncommon. Thus, closed cities also generally had a more limited assortment of available goods and little exposure to Western brands and retailing practices before the early 1990s (Griffin et al. 2000). The retailing transformation occurring in the capital cities of Moscow and St. Petersburg has only recently reached the provincial cities like Samara. Although the availability of goods has improved somewhat since the Soviet era, Russian consumers, particularly outside of Moscow and St. Petersburg can expect little choice among brands or wide assortments of products classes. This is evident in the interview quotes regarding the orientation of residents of Samara towards basic products rather than towards brand products. The orientation of residents of Samara towards basic products can also be attributed to the fact that most of the foreign retailers present in Russia's market that offer brand products are concentrated in Moscow and St. Petersburg. Thus, historical and regional contextual factors also account for variation in shopping behaviours of consumers in different cities and regions of Russia.

#### 6.2.4 *Compliance strategies in response to normative environment*

In the interview data, two strategies: *adaptation of assortment* and *adaptation of store location* emerged as strategic action taken by subsidiaries of Finnish multinational retailers to response to the three normative pressures identified in com-



pliance to the normative environment. Given a multinational retailer's resources and capabilities in relation to the ever changing business environment, a retailer must decide to what extent its strategy, most importantly marketing and operating strategies will be standardised or adapted. In the context of international retailing, the degree of standardisation or adaptation refers to the element of the retail offer (Evans et al. 2008).

*Assortment adaptation*- Adaptation strategy constitutes a robust and distinctive business model that represents the key strength of an international retailer in its home country (Cao & Pederzoli 2013). A foreign subsidiary will wish to transfer and duplicate this model in the foreign market. However, a business model is rooted in its original context and, to retain its competitive advantage, has to be adapted to some degree in line with a particular local consumer preferences and retail practices (Goldman 2001; Kacker 1988). Such changes may have to do with the different elements of the business model, namely the retail offer such as (products suiting local tastes, locally preferred brands, affordable prices adapted to local purchasing power); and choices of target groups and shop locations (Cao & Pederzoli 2013). A reflection of *adaptation of assortment strategy* by Adora, Zomaya, and Papela in compliance to normative pressures (*consumer taste and preferences, consumer shopping habits*) from the institutional environment of Russia is illustrated by the following quotes:

RESEARCHER: How do you deal with challenges concerning differences in Russian consumer taste and preferences and shopping behaviours?

INTERVIEWEE: "We don't adapt anything, we sell Finnish products here. Russians in St. Petersburg like Finnish products so we do not adapt a thing. Assortments may be adapted in terms of product groups. Let us say for example, in Finland, we don't sell much cooking oil as in Russia. In Russia, we sell a lot of cooking oil. For instance, we sell variety of sunflower oil, Rapsi oil, and olive oil. You need to have it all in Russia. Take tea for example, in Finland we have one green tea, one black tea etc. But here in Russia, you need to have a real selection of tea because, Russian like a selection of tea and food in general. Russians like good food, and they know what they eat. If you have for example, just two types of cheese then they start to ask, what is this? Russians really appreciate good food, so you can't just put some basic stuff on the shelf and think you are ok. If you are a supermarket, you need wide assortment of products more than in Finland" (Interviewee, Palela).

"We have some local differences in the assortments, especially for example in the food department we have local buying here and a lot of local merchandise in our assortment. Let us say, most or the biggest parts, or total space of the food department is pretty equal to Finland, but with more

food from local suppliers. We have big differences in certain products such as fish, meat and vegetables. But basically, dried food is pretty close to Finnish selection. The brands are the same. Of course there are differences then about the volume of Hugo Boss brand is in Finland. For example in Russia, we have the same Hugo Boss brands but the volume is bigger in Finland” (Interviewee, Adora).

“In Russia, all the fresh products come from the local market, and it is not possible to import them because there is customs requirement. Then we have a lot of product levels for the international market and in Russia, they are known as brand products, and they have different positioning than in Finland product levels. I think these are the main differences. And also dominance in fresh products such as fresh meat, fresh fish, and we have longer service counters than our store in Finland” (Interviewee, Palela).

“We have very large assortment of products, packed with shopping experience, and each store offers everyday fashion wear for customers of every age and size. In many of our wears, we have this brand called “red girls”. This is the brand for ladies with bigger size, and in Russia in general, we have this group of ladies who are very sensitive to fashion. Actually in general, in Russia you can see stores where products for bigger ladies are sold, and it is called for example, “size 60 plus” and it is very difficult for ladies to visit a store where this name is written. The “red girls plus” fit very well with our collection. They are very fashionable, and customers can also find other products which are fashionable in general” (Interviewee, Zomaya).

“Here is of course our mission: “Palela will operate profitably in St. Petersburg offering a convenient way for shopping high quality products. Our vision is Adora is the best choice for day-to-day shopping. And our customer target group is the middle class families who appreciate high quality at reasonable prices, wide assortment and ease of shopping” (Interviewee, Palela).

“Regarding our new assortments- we are trying to develop the sales assortments this is the reason why we have close communication with the product department, the sales department, and they often collect feedback from us about what our customers need. We are recognising differences in customer needs and behaviour. It is not typical, for example, for Finnish customers to have such different interest in fashion like we have in Russia. For example, the products which are very well sold in St. Petersburg will not sell at all in some other Russian stores, and it also depends on the weather, and the style. And of course, most stores in St. Petersburg differ a lot from other regional cities, whereas in Finnish culture, it is difficult for competitors to understand such different interest. This is because Russia is quite big and consumer interest is also quite big” (Interviewee, Zomaya).

“Customers value the wide selection of products and excellent customer service provided by the store. In addition to selection of high quality delicacies, there are plenty of inexpensive staple groceries on offer for the wide range of customers who shop at our store” (Director, ADORA Annual Report 2012).

“You have to have wide assortments and stock the shelves everyday which is not an easy task to achieve in St. Petersburg every day. There are a lot of people and the city is big so you don’t have to fight for the customers. We offer wide assortment (different price categories) of groceries in key product groups (SKU 45000–60000). We offer non-food products for regular routine shopping that can be sold as groceries without service (home, children products and clothes, clothes for everyday use). Trading floor 4 000-10 000 square metres. We try to provide easy and convenience shopping by store location, lay out, product placement, and cash line” (Interviewee, Palela).

“Mostly, the collection is made for all chains, Baltic States, Russia and Finland, but when we see the products mass, we can tell already which products cannot be sold in Russia, and we try not to sell them here. We try to sell products which are mostly sold here in Russia. So it is a bit complicated, it is easy to assume that Finnish, Baltic States and Russians interest or taste in fashion are the same. But Russia differs, and this is communicated to designers to take into consideration” (Interviewee, Zomaya).

“Ensuring that the customer has a positive shopping experience is the most important thing for the Group. The shopping experience must be equally positive in the store, the online environment and in the combination of the two alike. One objective is to respond more quickly to customer feedback and wishes. This means, for example, more flexible additions to local assortments. The strategic goal is to ensure that each store has the best assortment for the store type in question, specifically tailored to the customers’ needs” (TONIKO Annual Report 2012: 10).

Compliance to normative pressures (*consumer taste and preferences, consumer shopping habits*) from the institutional environment was focused on controlling elements of the retail offer. *The empirical evidence from the interview data suggest that Adora, Zomaya, and Palela made adjustment on retail format only to assortments when they transferred their retail formats to the Russian market.* Interviewees of Adora, Zomaya and Palela believed that their retail format transferred to the Russian market was one source of competitive advantage and therefore the same rules and concepts relating to format are observed regardless of the format adopted by other chains in Russia. Nonetheless, it was pointed out that adjustment was made on assortment in order to accommodate Russian consumer’s taste and preferences for quality products, fresh fish, fresh meat, fresh vegetables and wide assortments. The empirical evidence is consistent with prior research

(Cao & Pederzoli 2013; Evans et al. 2008) which suggested that in order to respond to normative constraints, international retailers tend to implement adaptation strategy to ensure that they meet the demands of the local retail norms and become part of the local business environment.

In addition, supporters of adaptation approach suggest that a firm will perform better when they adapt marketing and retailing strategies that take into account the differences in market and respond to the business environment (Calantone et al. 2006; Kunz & Garner 2006; Evans et al. 2000; Evans et al. 2008; Leonidou, Katsikeas & Samiee 2002). Leonidou et al. (2002) stated that there are three benefits in using a product adaptation strategy. Firstly, it reflects a customer-orientation position because exporter systematically evaluates buyer behaviour and host market characteristics. Second, it can result in greater profitability, because better product match can lead to greater customer satisfaction. Thirdly, pressures to satisfy specific host market requirements normally require creative and innovative thinking, which may result in additional cost for the retailer's domestic as well as overseas markets. The failure of Wal-Mart and Carrefour in Japan and South Korea was partly attributed to the firm's failure to adapt their product assortments to match the taste and preferences Japanese and Korean consumers (Aoyama 2007; Gandolfi & Strach 2009; Kim 2008).

*Store location adaptation* – Store location adaptation ensures the right customer profile is being reached and also that the “right” statement is being made about the brand (Allegra Strategies 2005; Dalton 2005). In the case of subsidiaries of Finnish multinational retailers in Russia, the choice of store location was in the metropolitan and ring areas because of Russian consumers' strong preference for stores with close proximity, within a walking distance, and easily accessed by public transport. A reflection of *store location strategy* by Adora, Zomaya, and Palela in compliance to normative pressure (*convenience shopping behaviour*) from the institutional environment of Russia is illustrated by the following quotes:

RESEARCHER: How do you deal with challenges concerning differences in Russian shopping behaviour?

INTERVIEWEE: “St. Petersburg is logistically a very challenging city, so we want to offer convenient way of shopping and high quality products because there are lot of low quality stores and hypermarkets, but the middle range is missing, and there is not much on offer for middle range clients/customers. So the middle class is our target group. And our vision is the best choice for every shopping” (Interviewee, Papela).

“Adora department store in St Petersburg is located on the corner of the major roads Nevsky Prospect and Ligovsky Avenue. Every day, over 200,000 cars use these roads and 84,000 people use the neighbouring

Vosstaniya Square metro station. The prime location ensures a steady flow of customers” (Director, ARORA Annual Report 2012.10).

“The first thing customers consider is the central location of the shop and variety of assortments. The city is of St. Petersburg big so if you are located at national routes where people don’t go, then you are on your own, so location is very important as in anywhere in the world. So, it is location, location, location, and after that comes other things. In Finland, we have rare example, but here in St. Petersburg, it is not the case” (Interviewee, Palela).

“In Moscow, most of the stores are in malls located in ring areas further way from the city centre, so the business is a little bit different like much more weekend-related in Moscow. Whereas, here [St. Petersburg], we are located in the city centre and across the street is the metro station, one of the busiest in St. Petersburg. It is quite obvious that we are located in the city centre so we have visitor flow quite equal on week days and it gets higher on weekends. This is quite beneficial to our food department. And if we think about local competition here in St. Petersburg, our food department is basically, the only let us say such size of food department. All the other grocery stores are located in 5 to 20 kilometres out of the city centre. This is related to the location of the stores” (Interviewee, Adora).

It is clear from the empirical evidence that store location adaptation decision by Adora, Zomaya, and Palela was in fact driven by the need to comply with normative pressure namely: *convenience shopping behaviour* of Russian consumers (cultural differences) than regulatory imposition. To enter and consolidate a market position in Russia’s market, it is strategically important for subsidiaries of Finnish multinational retailers to occupy commercially vital and high consumer traffic locations. Moore and Docherty (2007) support this view adding that flagships tend to be concentrated on specific streets accessible to high income individuals, fashion innovators and tourists. For example, Adora’s department store in St. Petersburg, which is a flagship in Russia, is located in the city centre, near the main metro station, and with high-traffic. Adora’s department store in St. Petersburg has 20 000 square metre in size, approximately, double of the size of other Adora department stores in Moscow which has the size of 9000-12000 square metres. Nobbs, Moore, Fernie and Sheridan (2012: 922) defines luxury flagship store as “a larger than average speciality retail format in a prominent geographical location, offering the widest and deepest product range within the highest level of store environment and serving to showcase the brand’s position, image and values.”

Most Russians live in flats and therefore do their shopping in small shops near where they live, or where there is access with public transport. For example, a

manager commented “many of our customers live or work nearby; therefore, prime location in the city centre ensures a steady flow of customers to our store” (ADORA Annual Report 2012: 12–11). Private car ownership is very low in Russia (Roberts 2005) thus, majority of Russians use the public transport system. Store location adaptation by subsidiaries of Finnish multinational retailers in Russia as evident in the interview data is consistent with prior studies (Moore & Docherty 2007; Jack 2004; Varley 2007), which support the idea that the location of flagship store must be prominent. The empirical evidence is also in support of Roberts (2005:56-57) who noted that since more than 50 per cent of Russian still do not own a car, and therefore uses the public transport systems, store location becomes critical in cities like Moscow and St. Petersburg. Roberts (2005: 57) also noted that Russian consumers prefer to shop at the local convenience stores and buy food and other necessities in kiosks, (10 percent), multi-purpose convenience stores (37 per cent), and open-air farm markets (24 per cent).

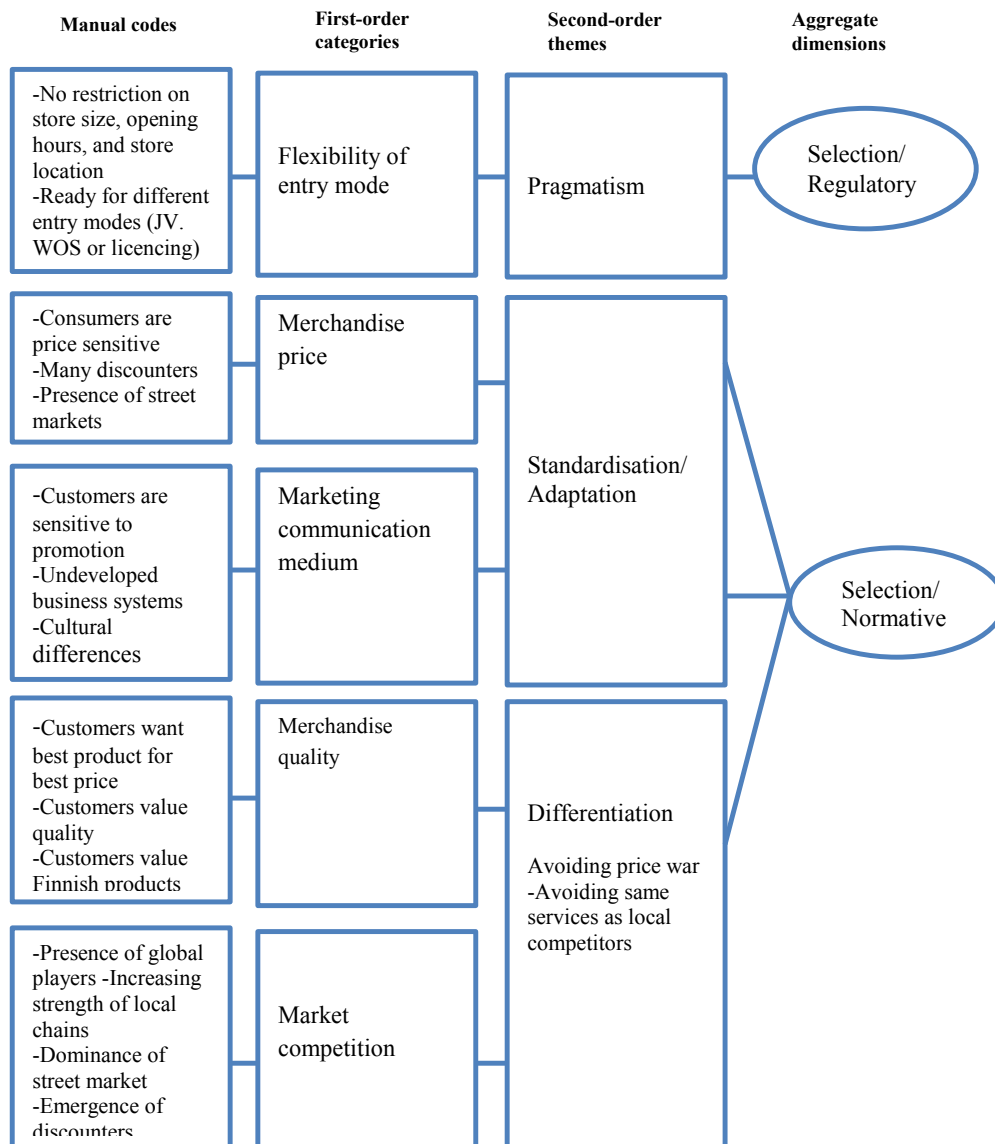
The need for subsidiaries of Finnish multinational retailers to adapt their store location in Russia’s market by locating stores in the city centre and locations with easy access by public transport is due to low level individual car ownership. For example, Uzyakov and Shirov (2012: 543) pointed out that currently “there are 280 cars per 1000 residents in Russia.” This finding is consistent with research by Burt, Johansson and Thelander (2011: 189) who noted that ‘lower levels of car access in China made out-of-town location unpractical’ and as such; IKEA stores have to be located near to public transportation points to ensure a high volume of customer traffic.”

### 6.3 Strategy 2 – Selection of the environment

This section presents the results concerning the strategy of selection of the institutional environment. International retailers expanding into foreign markets may find that selection of an appropriate environment is the best way to deploy its resources to take advantage of the opportunities available. Selection involves some level of conformity to the environment but allows international retailers to select retail practices and structures they wish to adopt to achieve an advantage. The complexity of retailing including understanding host retail laws, rules and regulations and conflicting demands from multiple constituents pose tremendous challenges to retailers in foreign markets. When the scripts, rules, norms, values, and models of the host institutional environment are known the international retailer has the opportunity and resources to select those practices and structures most consistent with and advantageous to it, hence, selection can be effective strategy (Zimmerman & Zeitz 2002). Selection of the institutional environment allows

Finnish multinational retailers operating in Russia's market to select retail practices and business structures that are consistent with goals and advantageous to the firm. In other words, retailers have the freedom and flexibility to select entry mode choice and ownership structures that match the firm's strategies.

Figure 8 below shows the manual codes, categories and sub-categories and the themes that emerge from the interview data for selection strategy. The first-order categories show regulatory and normative pressures from the institutional environment. The second-order categories show the specific strategies retailers employ in response to these pressures, and the aggregate dimensions show the strategic response choices retailers employ in response to regulatory and normative pressures from the institutional environment.



**Figure 8.** Examples of manual codes, first-order categories and second-order themes for selection strategy

The interview data suggest that subsidiaries of Finnish multinational retailers in Russia experience no regulatory pressures regarding entry mode choice and governance structure. Thus, the theme, *flexibility of entry mode*, and *pragmatics* emerged to characterise the strategic response choice used by subsidiaries of Finnish retailers in response to the regulatory environment. The interview data also suggest that in selecting the environment, Finnish retailers experience five types of normative pressures. The themes: *relevant merchandise price model*, *merchandise quality*, *relevant marketing communication medium*, and *competi-*



tion emerge to characterise normative pressures. The theme *retail store structure/concept* emerged from the interview data to characterise cognitive pressures. Furthermore, the interview data suggest that subsidiaries of Finnish multinational retailers respond to normative and cognitive pressures by selecting four strategic response choices: *standardisation/pragmatism, standardisation/adaptation, centralisation of logistics, and differentiation*.

### 6.3.1 Selection- regulatory environment pressures

Regarding regulatory selection, the theme, *flexibility of entry mode* emerged from the interviews to characterise the influence of the regulatory environment on entry mode choice for Finnish retailers into Russia's market. In addition, the theme, *pragmatism* emerged to characterise the strategy used by Finnish retailers to select entry mode choice.

*Flexibility of entry mode-* When a retailer contemplates expanding into a foreign market, it first considers the regulations governing foreign direct investment if there is any (Huang & Sternquist 2007). The extant literature identified two main types of regulatory forces, imposing and inducement (Grewal & Dharwadkar 2002). Imposing is where international retailers have to conform to the law in a host country. For instance, the Large-scale Retail Law (LSRS) in Japan has significantly constrained the expansion of Carrefour and Wal-Mart (Aoyama 2007). Similarly, numerous retail regulations in Germany have hindered Wal-Mart's expansion in that country (Christopherson 2007). On the other hand, a country may provide strong incentives to attract retail foreign direct investment (Grewal & Dharwadkar 2002; Hollander 1970; Ma & Delios 2007; Meyer & Scott 1992).

The Russian retail sector is very liberal and full foreign ownership of grocery operations is possible. In addition, there are not any major restrictions on foreign ownership of land plots which may affect foreign retail companies. The new Russian Code contains a much-needed legal framework for land ownership (Griston 2002). This might however, change in the future as the competitive situation, especially in Moscow and St Petersburg is changing fundamentally due to the ongoing investment boom. Store opening hours in Russia are also essentially liberalised and retailers wishing to open around the clock seven days a week can easily do so, and some retailers are in fact doing this. The interviewees of the case firms, Adora, Zomaya, and Palela mentioned that retail laws in Russia are liberal. They described the planning process as one that works, even if it can take a long time. The empirical evidence suggests that the liberalisation of the retail sector in Russia allowed Finnish retailers the flexibility to select entry modes and ownership structures consistent with the firm's goals. A reflection of the liberalisation of

retail regulation on entry mode and ownership structure of subsidiaries of Finnish multinational retailers in Russia's market is illustrated by the following quotes:

RESEARCHER: The retail format like size of the store and opening hours; was it mandated by any legal restriction, or your firm has the freedom to decide on the size of the store and opening hours?

INTERVIEWEE: "There is no legal limit on store size, for example, here in St. Petersburg; we own the real estate where we are operating. With regards to our other department stores, we are like a tenant of other shopping malls. It is not a question of legislation, but a question of negotiation with the landlord about the premise size. There is no restriction in the legislation. Well, there might be something like that but that was not the main issue such as restriction on store size of let us say 50,000 square metres or more" (Interviewee, Adora).

[...] We work according to the laws of the country, which is very typical. Today, there is no law regulating the store opening hours and store size. In Finland, you cannot open for 24 hours, but you can open as much as you want in Russia. There are no restrictions on store size. However, this might change in the future, but at the moment, there is none (Interviewee, Palela).

RESEARCHER: Please can you describe the ownership structure of your company in Russia?

INTERVIEWEE: "In Russia, we have our own legal entity, since here in Russia; you are not able to operate if you don't have your legal entity located in Russia. But this unit in Russia is 100% owned by ADORA, our parent company and it is totally one unit (subsidiary) of the ADORA Group. There are no Russian owners in Adora Russian subsidiary. So we have exactly the same shareholders in Finland that own shares in the Russian chain and the other chains in other markets" (Interviewee, Adora).

"Our company is a 100% owned branch. Zomaya stores and Adora department stores work in Russia under the same legal entity of ADORA, our parent company" (Interviewee, Zomaya).

The liberalisation of the retail sector in Russia has permitted the development from single-store operations to joint ventures and whole foreign ownership. The empirical evidence indicate that the liberalisation of the Russian retail sector offers Adora, Zomaya, and Palela the flexibility to select an entry mode strategy of wholly *owned subsidiary*. The entry mode of wholly owned subsidiary thus enabled Adora, Zomaya, and Palela to take full control of the operational processes and to exploit the capabilities and strategies advantageous to the firm. Less restrictions on foreign ownership of land plots in Russia is also demonstrated in the statement made by an interviewee regarding acquiring the land plots for its store

in St. Petersburg. [...] In the beginning of 2000, we were searching for a land plot for department store in the city of St. Petersburg. And in 2006, the German developer SPAG, encountered some financial problems and decided to terminate the project and decided to sell the land plot. [...] In 2006, we entered into a negotiation with the German developer SPAG and purchase the project and the land plot from SPAG' (Interviewee, Adora). This finding is consistent with previous research which suggests that international retailers favour wholly owned subsidiary entry mode choice when the host country government has less restriction on retail foreign direct investment including entry mode and land plot ownership (e.g. Hollander 1970; Huang & Sternquist 2007). With respect to hours of operation, in the home country Finland, government regulates store hours, while in Russia, the stores can set their own operating hours. Store opening hours of Adora, Zomaya, and Palela are somehow less than their competitors, who open 24 hours seven days a week.

### 6.3.2 Selection strategies in response to regulatory environment

*Pragmatism-* In Russia's unstable regulatory and highly bureaucratic environment, but with a liberal retail sector that offers inducement to attract retail FDI, international retailers favour pragmatism over strict adherence to ideology. The collapse of the Soviet Union in 1989 offers foreign firms the opportunity to enter the Russian market. The transition from centrally planned economy to market economy also meant undeveloped retail infrastructure and lack of competing retail models. Changes in the political environment of Russia and the liberalisation of the retail sector resulted in opening up the country for retail FDI and for new business structures to emerge. There were no proper Western business models in Russia following the collapse of the Soviet Union, thus, foreign retailers need to favour pragmatism over strict ideology and choose retail structures and marketing and management practices consistent with their home market. This mean that foreign retailers can easily enter the market by establishing wholly owned subsidiaries, and easily transfer their existing retail concepts and formats into Russia. Adora, Zomaya, and Palela all follow pragmatism and adopt an entry mode choice of wholly owned subsidiary and implement retail structures and practices consistent with the organisational goal and strategies. A reflection of the changes in the political environment is illustrated in the following quotes:

RESEARCHER: How did you enter the Russian market?

INTERVIEWEE: "The international expansion was basically a coincidence or an accident. At that time, we have export service in Helsinki departmental store. We deliver goods by rail to Moscow for diplomats from different countries, also Finnish and other countries. At that time, Gorba-

chev's rise to power (perestroika, glasnost) created the possibility to open own permanent store in Russia. This gave us the opportunity to start different businesses in Russia as well. The first store was opened in Moscow in 1989, so it was built in the Soviet Union time. The first department store was opened in 1998, and this marked the beginning of our expansion to Russia. The second phase of the internationalisation started with the dramatic fall of the Soviet Union in 1991. This created opportunities to enter the market and basically expand the operations into the Baltic States" (Interviewee, Adora).

The empirical evidence suggests that in order to exploit different opportunities in Russia's unstable and rapidly changing market place, subsidiaries of Finnish retailers in Russia were flexible about their entry strategies and look for direction solution by taking advantage of the liberalisation of the retail sector. The empirical evidence suggest that Russia's unstable, bureaucratic, and rapidly changing environment offer international retailers the flexibility to select entry mode choice that fit the firm's strategies. There is no regulation that restricts entry mode choice selection and governance structure of retailers in Russia. Thus, foreign retailers can enter the market with entry mode and governance structure of their choice to enter the Russian market. This finding is consistent with previous research (Huang & Sternquist 2007; Lu, Karpova & Fiore 2011) who suggested that government regulations such as land planning, pricing, store opening hours, and store size requirements can have direct impact on the ownership of foreign direct investment which may affect entry mode choice. This is also consistent with the view that a multinational retailer with a concept and brand need "control" for securing ownership, and thus prefer a high-control entry mode to enter a foreign market (Park & Sternquist 2008).

### 6.3.3 *Selection – normative environment pressures*

Concerning normative environment, five major themes emerged from the interviews to characterise normative pressures subsidiaries of Finnish multinational retailer face in Russia. These five major themes are: *merchandise price, relevant marketing communication medium, merchandise quality, and market competition.*

*Merchandise price-* An important element of merchandise strategy is merchandise price which is defined as the part of the shopping experience where the evaluation of the price of goods relate to the type of retail store has measurable effect on hopping behaviour (Kerin, Jain & Howard 1992). Merchandise price is defined by two types of consumer price perceptions as discussed by Dickson and MacLachain (1990). The first is reasonableness of product prices with respect to value perceived, and the second is how significant customers' percieve a store's

sale prices, or specials to be. Pricing is a key area of consideration as it can make the difference between affordable and unaffordable. Average incomes in Russia while rising, the larger population still live on low income. In order to charge “European” prices, foreign retailers need to convince consumers their brands are superior to the cheaper alternatives in the market. Due to fragmentation of the retail market in Russia, and strong presence of local discount chains, subsidiaries of Finnish retailers face the pressure of optimal merchandise pricing. In other words, finding the right balance between price and quality emerged as a major issue from the interview data. This is due to large differences in income levels between the rich and the poor. Thus, consumers tend to be sensitive to price, but at the same time demand good quality products. A reflection of how *merchandising pricing* in Russia’ market impact on the operations of subsidiaries of Finnish multinational retailers is illustrated by the following quotes:

RESEARCHER: Please describe some of the challenges you face regarding pricing of your products in Russia’s market

INTERVIEWEE: “Our target group is the middle class, people who are not looking for cheap price, they are looking for reasonable price, and they also consider the quality of the goods, wide assortments, and convenience of shopping. They are customers who don’t go to smaller shops, and we cannot compete in that segment because we came to the market too late, and therefore not possible to compete at the lower end of the market. This is because our buying power is very small here in St. Petersburg compared to other chains” (Interviewee, Adora).

“Our customers are with more rational behaviour, quite sensitive to promotion actions and especially loyalty programs. Collections are affordable priced fashion for women, men, teenagers and children. For example, last year we started our program of Zomaya Customer Club in St. Petersburg and it attracted very good interest and our customers were happy that we have started this program at last” (Interviewee, Zomaya).

“Prices here for all imported merchandise cost 15–20% more than in Finland and this is mainly due to custom fees on imported goods. This is a major problem for all retailers. Basically, all goods that are imported into Russia are more expensive compared to Finland or EU countries. This is the reason why even when we are having our promotions called Crazy Days in St. Petersburg; people are travelling to Finland to make their purchases/shopping in our Helsinki department store. This is because it is a little bit cheaper when they have tax free refund on purchases. However, in our food segment, it is quite different because local buying and local suppliers are delivering food in many parts, so we have lower prices than in Finland. But in all the other areas, we are more expensive compared for example to Helsinki department store” (Interviewee, Adora).

“Our customers want best products for best price so all discount campaigns are well met with Russian customers. Due to global big fashion players entering the market last year, they have a bit spoiled Russian customers by providing better offers with prices, so now customers want to get good products at better price” (Interviewee, Zomaya).

“I think most of the consumers understand that the price differences is not about our store alone but we have other foreign retailers here also, and all the prices are higher here than in Finland. Our consumers understand that it is the question of imported goods to Russia. Thus, it is not something that our customers are questioning that why we have high prices as compared to Finland, they understand the issues” (Interviewee, Adora).

“Share of income used on food products in Russia is considerable, which means that the importance of price level is huge. When the purchasing power of the customers increases, the importance of prices decreases but of course, it is always one of the main factors in choosing the place to shop” (Interviewee, Palela).

The empirical evidence suggests that Russian consumers’ sensitivity to price exert pressure on the operations of Adora, Zomaya, and Palela in Russia’s market. Due to consumer sensitivity to price, Adora, Zomaya and Palela have to find the right balance in price and quality so that they do not overprice themselves out of the market. The above empirical evidence is consistent with previous researches which suggest that an important element of merchandise strategy is merchandise price. Empirical evidence demonstrated the link between price and shopping behaviour (Aoyama 2007; Dodds 1991; Gandolfi & Strach 2009; Kim 2008) and that merchandise price has an influence on customer loyalty; and that merchandise price has an influence on customer loyalty (Keaveney 1995; McKenzie & Merrilees 2008). For example, Mackenzie and Merrilees (2008) and Marinov and Morinova (2001) noted that pricing remain an issue for retailers operating in countries with a lower standard. In addition, a variety of studies (e.g. Myers & Cavusgil 1996; Leonidou, Katsikeas & Samiee 2002; Sousa & Bradley 2008a; Sousa & Lenger 2009) have found that pricing is a key variable affecting export performance of the firm.

*Relevant marketing communication medium-* Dissimilarities in the institutional environment across different markets influences marketing mix decisions such as marketing communication or promotion (Nanda & Dickson 2007). There are many methods of communication with environment. One can distinguish media communication with the use of press, television, cinema, and internet advertising, which is increasingly popular, particularly with the use of social media, such as facebook, SMS, and twitter, as well as non-media communication. Companies

can also communicate with clients with the use of point-of-sale and product promotions (Grebosz & Otto, 2009). Each of these methods is designed to win consumer's interest and attention and thus bring about an increase in sales. For instance a manager of Palela commented '[...] Russian consumers always need something new to capture their attention. Tieto's Mobile Shopper adds excitement and just-in-time value to shopping. It is a new interaction channel for us, building modern loyalty.' (www.tieto.com/finnish-hypermarket-chain). Retailer's products are presented in all campaigns, both in ones aimed to promote a new product or service, and those designed to enhance the firm's image in the foreign market. Promotional campaigns also allows for the realisation of the retailer's mission. A reflection of the normative pressure on the subsidiaries of Finnish multinational retailers' choice of relevant communication medium in Russia is illustrated by the following quotes:

RESEARCHER: Describe the challenges you face regarding marketing communication, such as advertising and promotion in Russia?

INTERVIEWEE: "There is one major difference in Russia compared to Finland, and that is print advertisement. Here in Russia, TV is really the main media used for advertising. Print media in daily newspapers delivered to the home is not possible in Russia as compared to Finland, where print media or newspaper delivered to the home is the main media for advertising. In Finland, print advertisement is basically our main channel, and we use the daily newspapers such as Helsinki Sanomat, Turun Sanomat, and so on for advertisement. But in Russia, there is no such thing, or even the opportunity to have morning newspapers delivered to people's home. It is logistically challenging. So advertisement in print media here in Russia is much smaller compared to Finland. In Russia, our main channel for reaching the customer, and as many eyes as we can is television. This is the major difference as compared to Finland" (Interviewee, Adora).

"So far we had much less advertising and different marketing activities in Russia, than in the other countries. It is seldom in Russia that we use television for advertisement. We mainly concentrated on point-of-sale (POS) activities. We use our stores as our promotion. The maximum we can have is perhaps some posters on bill boards in some good location. Actually, our position in Russia is that we are not using big marketers. We are continuously developing in-store visual marketing so we are working on the concept so that product becomes easier for the customer to buy and understand what they need" (Interviewee, Zomaya).

"Regarding consumer behaviour and marketing channel, one issue which I should mention is electronic channels such as sending SMS messages, facebook pages, web pages, or sending e-mails. Using social media in our marketing is much more common here in Russia compared to Finland.

Our Russian customers and visitors are much more willing to give the permission to send SMS messages or e-mails, and they are willing to receive this kind of messages compared to Finland where most of our customers are not willing to have these messages is one major differences. It a major theme but interesting phenomena how Russian consumers are partly different compared to Finland” (Interviewee, Adora).

“We are sending leaflets to our loyal customers which are the biggest part of our marketing. If we exclude customer marketing, then the next one is television media. This it is the same in St. Petersburg and Moscow. We have some Metro magazines as well and we are using them, but those are not the main channel over here as it is Finland” (Interviewee, Adora).

The empirical evidence from the interviews revealed that the institutional environment influence the marketing communication process and the selection of the appropriate medium for advertising and promotion by Adora, Zomaya, and Palela in Russia. Dissimilarity in infrastructure regarding the possibility to deliver newspapers to people’s home and Russian consumer behaviour influence the choice of marketing communication medium for advertising and promotion. The medium used for advertising and promotion varies among the case firms. For example, Adora used multiple marketing communication mediums for advertising and promotion including TV, posters, leaflets (direct marketing), SMS, in-company promotion, special events and campaigns, and website promotion. This is reflected in the following statement: “We have other events that go to support TV media such as attractive “buzz creating events” such as ‘Crazy Days’, shopping nights, celebrity visits, and fashion shows which are held four or five times per year. For example, the Zenith football team is pretty close to religion in St. Petersburg. Zenith has over 1 million fans in St. Petersburg and when we have Zenith goalkeeper in our shopping centre, the crowd is usually overwhelming and the shopping centre is totally full of people” (Interviewee, Adora). A similar view is also reflected in the following statement: “In Russia, various events play an important role. The Crazy Days sales campaign provides a considerable contribution to the annual revenue, also in St Petersburg department store, and fills the store from opening until closing” (Director, ADORA Annual Report 2012: 12).

For instance, regarding marketing communication, Adora has a popular marketing campaign event called ‘Crazy Days’ which is held twice in a year. The Crazy Days campaign use the yellow ghost in the campaign materials, and customers, are sent the Crazy Days leaflets at homes. Information is delivered in the streets and inside the shop about a week before the campaign. The Crazy Days campaign event is very popular with Finnish consumers and has been successfully introduced in Russia. The Crazy Days sales campaign has been particularly successful with Russian consumers. This is reflected in the following statement: “We are



very competitive and our targets are high. The sales figures for our Crazy Days campaign in autumn 2012 were already the second highest for the department store chain. The campaign's revenue was up by 10 per cent and the sales grew particularly well in Russia (CEO, ADORA Annual Report 2012: 12).

On the other hand, Zomaya used mainly point-of-sale promotion, such as front-store and in-store display, and loyalty programmes. In 2006, the firm launch the campaign "SupperModel of your own life" as a marketing communication medium to reach its consumers. This is reflected in the following statement: "We believe that the marketing campaign of SupperModel of our own life is a representation of our own like so we use the faces of general people who we meet in everyday life, and we believe that everyone can be a supermodel of our own life" (Interviewee, Zomaya). Zomaya does not use celebrities/superstars or professionals in its ads like H&M uses Copela or Lindex uses celebrities in their latest collections. This is reflected in the following comment: "We believed that we can find supermodels in our own life and attract customer by using faces of regular people on the street" (Interviewee, Zomaya). On the other hand, Palela relied mainly on its in-store layout and display and mobile shopping information technology.

As part of their active market strategy, Palela in St. Petersburg aimed to offer a new interactive communications channel for loyal customers in an attempt to attract them to the store more frequently and build an active brand image. Tieto, an information technology (IT) company delivered the cloud based Mobile Shopper service to Palela. The Mobile Shopper apps are easily downloadable for the Russian consumers from the App Store and Android Market. Palela's service consists of packaged solution with ready-made functionalities plus some market based adjustments requested by the customer. Palela's decision to adopt Tieto's Mobile Shopper service is to increase customer loyalty and brand awareness. The Mobile Shopper App was launched for Palela's customers in January 2012 and is Palela's hypermarket chain's first mobile shopping service for customers.

It is interesting to note the Adora, Zomaya, and Palela used different market communication mediums for advertising and promotion in the Russian market. The interview data show that Adora used TV ads, point-of-sale promotion, and special events and campaigns to reach wide segments of the population, while leaflets, loyalty programs, and SMS are used to reach individual and loyal customers. Zomaya used only point-of-sale promotion to reach its customers, while Palela used in-store layouts and Mobile Shopper App to reach consumers. The empirical findings are consistent with (Moon & Jain 2002) which shows that cross-national variation in infrastructure and consumers and cross-national indi-

vidual differences, i.e. country-of-origin perceptions, ethnocentrism, and country attitudes influence marketing communication medium.

The fact that Adora used TV mainly for advertisement in Russia is consistent with (Larimo & Pesonen 2009: 408) who suggest that television advertising has dominant role in CEE countries, especially in Russia. This is also consistent with (Typpö, 2007, reference in Larimo & Pesonen, 2009: p. 408), who show that the popularity of television advertising in Russia is high because of the wide geographical coverage and low level of contact price. For example, (Typpö 2007; reference in Larimo & Pesonen 2009: 408) noted that about 99 per cent of Russian household own a television. This findings is also consistent with (Moon & Jain 2002) who found that consumers' country attitudes primarily affect their responses to the culture-related creative presentation of a foreign ad comprising such factors as foreign models, artefacts, settings, customs, moral values, humour and lifestyles, etc. that packages and surround the buying proposal.

*Merchandise quality*- Merchandise selection comprises both physical measures of merchandise quality (Wheatley, Chiu & Goldman 1981), as well as measures that relate to the brands and style of the merchandise carried (Mackenzie & Merrilees 2008; Rinne & Swinyard 1995). Merchandise selection is defined by objective measures of merchandise quality such as durability and reliability (Garvin, 1987), and subjective measures of merchandise quality such as brand, and styles (Merrilees & Miller 2001; Mackenzie & Merrilees 2008). The interview data suggest that Russia's middle class is the main target group for subsidiaries of Finnish retailers in Russia. The interview data suggest that Russia's middle class consumers have preference for brand and quality products at reasonable price. A reflection of the target group's preference for merchandise quality is illustrated in the following quotes:

RESEARCHER: Please describe your customer profile, which are the most relevant?

INTERVIEWEE: "Our target groups are basically the middle class; upper middle class, and basically women, age from 26–55 years and men also but, higher priority is women. They are quality conscious and tend to be brand loyal. And they are really brand oriented and premium brands are more appreciated here in Russia than in Finland. They are willing to spend money on fashion and home products" (Interviewee, Adora).

"Our customers demand quality/price ration. In other words, they are ready to pay higher price, but not for bad quality. Thus, the merchandise price plays an important role as well as quality. What we are doing now this year is to try and find balance between good price and good quality to meet the demands of the customers" (Interviewee, Zomaya).

“Our target group is people who are not looking for cheap price, they are looking for reasonable price, and they also consider the quality of the goods, wide assortments, and convenience of shopping” (Interviewee, Palela).

“Our customers value quality and well-known brands”. “Our customers are very fashion conscious. Above all they value quality and well-known brands – price is also an important factor” says (Director, ADORA Annual Report, 2012: 12).

“Our customers are quality conscious, so we have quality procedures that we follow when purchasing the product from suppliers. Although there are some problems, in Finland, we also experience the same problem with fresh products. For example, with meat, every part of the meat is different e.g. the quality how much content of water. It is not like in Finland where you get exactly what you want. Here, [Russia] you get what the supplier have in the week, thus, every week you get what they can offer. Thus, if you really want to control the quality of supplies, then you need a big chain and terminal, and your own producer controlled system so that you know what the supplier is doing. At the moment, we don’t know what they are doing, so it is a problem” (Interviewee, Palela).

The empirical evidence indicates that Russia’s middle-class consumers’ preference for quality products exert pressure on the operation Adora, Zomaya, and Palela in Russia. In a country where the middle class is increasing, low price alone can no longer effectively increase one’s customer base as the consumer is looking for distinctive experience and discovery of particularly savoury food, brand products and expect retailers in enriching their lifestyle. With rising real incomes, the emergence of the middle class in major urban centres can be perceived, which is crucial for dynamic development of the retail sector. Russia’s increasing middle class consumers are therefore looking for a retailer carrying brand products with distinctive design, reasonable price range, and good brand management skills. For example, the brand Hugo Boss, which is part of the product assortment carried by Adora is a very popular among Russian consumers as evident in the interview data. Given the ever-increasing demand for quality and well-known brands by Russian consumers, continuous market growth for subsidiaries of Finnish retailers in Russia can be expected. International grocery and fashion retailers in Russia experience intense normative pressure to serve customers who differ culturally from those with whom they have become accustomed. Examples of such differences as evident from the interview data include: demand for quality and well-known brands, key consumer reference groups related to consumption, and consumer aesthetic preferences (Lu et al. 2011; Marinov & Marinova 2001; Sternquist 1998). The success of subsidiaries of Finnish retailers in

Russia is very promising as the firm's product assortment covers high quality and well-known brands with identifying logos or signature design, as well own private label brands which are desired by Russian consumers. The middle class consumer demand brand and good quality products at a reasonable price; thus, subsidiaries of Finnish retailers are well positioned to tap into this customer group.

The perceived priced-quality ratio is therefore an important criterion in the purchase decision as noted by (Kaipio & Lemmänen 2005). This findings is consistent with prior research which noted that product quality and brand influence consumer shopping behaviour (e.g. Aoyama 2007; Lorentz 2005). Lorentz (2005) noted that the Russian consumers increasingly favours quality and service as purchasing power increases and the middle class emerges. This finding is consistent with Lorentz et al. (2006) who asserted that some estimate the preference for quality and modern shopping environment to be strong among the Russian middle class (5.4 million people in Moscow) as well as among 70-80 per cent of the disposable income bracket (Troika Dialog Research 2005; cited in Lorentz et al. 2006). Robert (2005: 52) also noted that Russian consumers are very open to new retail brands and formats.

This finding is also in line with studies in the Japanese context by Aoyama (2007) who asserted that Japanese consumers are the 'most difficult consumers to strategize, because they require high quality on everything, and knowledgeable about products, service quality and prices around the world... They are extremely brand-conscious, and demand brand products even on groceries, (Kikkei Business 2005, p.130, cited in Aoyama, 2007). Russia's emerging middle class preference for quality product and brand orientation can therefore be considered contextual phenomenon or unique cultural characteristics in their relation to consumer shopping behaviour (Alexander 1990), and the type of retail store patronised. For example, previous research (Wheatley & Chiu, 1977) found that store prestige was the strongest information cue for consumers when estimating product price and perceiving quality.

*Market competition* – Market competition represents the maturity, concentration and intensity of competition among indigenous and foreign retail chains in any particular country (Bianchi 2009; Bianchi & Mena 2004; Lu, Karpova & Fiore 2011). The maturity, concentration, and intensity of competition within the retail sector of a host country can be fierce. This may present huge challenges to foreign retailers wishing to enter that market. In some countries, local retailers have sometimes developed sufficiently protectable market scale that allows them to withstand foreign entrants (Bianchi 2009). With the growing presence of international grocery and fashion brands, the competition in the Russian grocery and

fashion market has become intense. Intensity of competition is indicated by the number of competitors in Russia's market. The interviewees of the Adora, Zomaya and Palela pointed out that there are a large number of competitors in the Russian market, both local and foreign in grocery and fashion retail that face stiff competition with each other.

In addition, interviewees mentioned that there exists large number of open markets, convenient stores and kiosks alongside large retailers in Russia that makes the competition tougher. Adding to the competitive market situation is the fact that Russian consumers face little switching costs, therefore, retailers are under increasing pressures to secure consumers' custom and loyalty by attempting to cut price (MarketLine 2013: 16). Consequently, larger Russian local retailers are pushed into competitive pricing policies due to limited level of differentiation across the basic product range. Rivalry is also intensified by the close similarity of players, although they may try to differentiate through products, quality, brand, and price. As food retail lies at the heart of many retailers, the pressure to secure customers gave rise to aggressive competition. Rivalry among retailers in the food and apparel sector in Russia is very strong. A reflection of the market competition in Russia's food retail and apparel/fashion sector is illustrated in the following quotes:

RESEARCHER: How would you describe the nature of competition in your sector?

INTERVIEWEE: "We are operating in international market so there are several international players therefore; the competition is getting tougher and tougher. The operations director of X5 was bought by Wal-Mart about eight month ago and his competition prohibitions end by June 2012, so we will wait and see if they make any purchase. Because Wal-Mart has been coming and going out of Russia for the last ten years and they have not done anything concrete" (Interviewee, Palela).

"In general, fashion retail in Russia last year [2011], the big picture changed dramatically and a lot of big fashion chains entered the market and became our strong competitors. The clothing market size grew by 11% compared to 2010 to 32 million euros. The competition became strong in Moscow and St. Petersburg where about 40% of sales revenue comes from. As I have already mentioned, lots of global players entered the market lately and have started to expand rapidly and open stores. This is also due to the fact that we have quite a lot of shopping centres being built and opened in Moscow and St. Petersburg" (Interviewee, Zomaya).

"Overall in Russia, 29% of fashion is still bought on open air market. This is of course not in big cities but smaller cities. This therefore presents real challenge to all retailers and the whole country" (Interviewee, Adora).

“Competition level is really high, as almost all leading international brands came to the Russian market during last 5 years. Our competitors, the global ones have started to develop very quickly last year where for example, GAP, H&M started with one or two stores but developed quickly in Russia. Indetex group was represented mostly by ZARA stores but they have also started to open quite a lot of stores. Lindex came to the Russian market and also try to get big share of customers. So this is how we are competing with our major competitors in the Russian market. There are quite a lot of competitors but I think we will manage” (Interviewee, Zomaya).

“If we think about local competition here in St. Petersburg, our food department is basically, the only let us say such size of food department in the city centre. All the other grocery stores are located 5 to 20 kilometres out of the city centre. It is a different situation here is St. Petersburg compared to Moscow. I would say that here in St. Petersburg, our competitors are in the grocery area are OK, Prisma, Achuan, and K-Rouka which opened recently” (Interviewee, Adora).

“Our local competitors in St. Petersburg include, for example, Okei, X5-Perekrestok (supermarket), Karusel (hypermarket) and Pjatortska (Discount). Okei is a very big competitor for us and they have hypermarkets and also supermarkets called Okei Express, They are very good competitors and very good quality stores. Then there is a big holding called X5, they comprise of kiosks, hypermarkets, supermarkets and discount store. And for Finish companies, I can mention Kesko City Market, one store will be open in St. Petersburg by December 2012, but for sure more stores will be open in Moscow. So this is a very competitive environment, and it is more competitive than Finland” (Interviewee, Palela).

“International competition is present in St. Petersburg market and here [St. Petersburg] we compete with Metro group (Real, Metro Cash & Carry) which is German company and it is very big and they have hypermarket Real, and Metro Cash and Carry. Here in Russia, it is possible that a private person can operate Cash and Carry and joint venture is possible in Russia. We have Auchan, which is very big in Moscow and in the regions but not very big in St. Petersburg” (Interviewee, Palela).

“We all know the situation at the moment compared to 25 years ago. Now we have a lot of shopping malls and shopping centre and many international retailers operating in Russia. And there is still more development going on” (Interviewee, Adora).

“Having grown to its current size, Magnit says it enjoys roughly the same purchasing terms as market leader X5, which helps it compete on price,

win customers and defend margins (Reuters, The Moscow Times, 05 July 2012).

The level of competition in the Russian market is also reflected in the comment made by the owner-managing director of the Magnit retail chain: [...] "Competition is growing every day, but we still have opportunities for more or less comfortable growth," Galitsky, 44, said on a conference call in March (Reuters, The Moscow Times, 05 July 2012). [...] "X5 is now investing in price. We won't let them remain the cheapest stores," Galitsky said in April (Reuters, The Moscow Times, 05 July 2012). Magnit is the leading domestic retail chain in Russia. As the competition in Moscow and St. Petersburg intensified and retail space has become scarce and expensive, many retailers have started to expand into other cities. This is noted in the following quotes: [...] Competition in Moscow and St Petersburg has become strong, which has led to retailers' expansion into regional cities, densely populated areas such as the Nyzniy Novgorod and Volga regions and industrial cities such as Ekaterinburg and Tuman in Ural and Novosibirsk in West Siberia. Majority of retailers have adopted a multi-format strategy and are trying to identify the most successful banner (Planet Retail, 2013).

Given the attractiveness of the Russian retail sector, both local and foreign chains are expanding aggressively into small towns and regions as the competition becomes fierce in the major cities of St. Petersburg and Moscow. The evidence from the interviews indicates that the Russian retail sector is very competitive. Modern grocery retail in Russia is dominated by domestic retailers such as Magnit and X5 Retail Group. Apart from these local chains, there are some big international players such as Auchan, Metro Group and Rewe Group. The majority of modern grocery stores are located in Moscow and St. Petersburg. The leading retailers in Moscow include X5 Retail Group, Dixy Group, and Sedmoi Kontinent. St Petersburg's retail landscape is almost saturated and dominated by O'Key, Lenta, and X5 Retail Group with around 3,400 stores (Retail Planet 2013). All major international brands are present in the marketplace and prices are very competitive. The retailing industry has gone through a rapid expansion process, especially, grocery and fashion chains. Nevertheless, domestic retailers have consistently and fiercely defended their local market from foreign giants like Wal-Mart and Carrefour. The food retail sector consisting of hypermarkets and supermarkets and neighbourhood stores are in the hand of domestic chains that compete strongly in this sector. For example, Germany's Metro and France's Auchan have succeeded and have many hypermarkets throughout the country, but Wal-Mart has been thwarted in attempts to enter the market by acquisition (The Moscow Times, 05 July 2012). Similarly, Carrefour abandoned its expansion just a few months after opening a store in 2009, citing a lack of opportunities that

would secure it any sizable market share, as it was pressed to concentrate on domestic issues (The Moscow Times, 05 July 2012).

*The empirical evidence indicates that the concentration and intensity of competition among local and foreign retailers in Russia exert pressure on the operations of subsidiaries of Finnish retailers in Russia.* As evidence from the interviews indicates, Adora, Zomaya, and Palela face competition from both domestic and foreign retailers. This finding is consistent with previous researches (Bianchi & Arnold, 2003; Bianchi & Mena, 2004) who concluded that local Chilean retailers were relevant social actors in the market that obstructed Home Depot's performance in Chile. Likewise, the study by Aoyama (2007) showed that the maturity, concentration, and intensity of competition among indigenous Japanese chains exert pressure on the operations of Wal-Mart and Carrefour in that market. These authors noted that local chains have developed sufficiently protectable market scale that allows them to withstand foreign entrants. For example, Aoyama (2007) noted that local Japanese chains managed to undercut many of Carrefour's prices on the first day of opening, thereby effectively preventing customers from associating Carrefour with price competitiveness.

#### 6.3.4 *Selection strategies in response to normative environment*

Three themes emerge from the interview data which characterised strategies retailer pursue in response to the normative environment. These themes are: *standardisation, adaptation, and differentiation strategy*. The interview data suggests that subsidiaries of Finnish multinational retailers in Russia select a strategy of *standardisation and adaptation* to respond to normative pressures of *merchandise price and marketing communication medium*; and *differentiation* strategy to respond to normative pressures of *product quality and market competition*.

*Standardisation and adaptation strategy* – Taking into consideration the organisation's resources and capabilities and the dynamic business environment, an international retailer must decide to what degree its strategy, particularly, marketing and operating strategies will be standardised or adapted. In international retailing context, the degree of standardisation or adaptation refers to elements of the retail offer, including merchandise quality, range and fashion, level of services, facilities, layout, atmosphere, location, quality of display, advertising, general reputation, reliability, price and image in general (McGoldrick 1998; McGoldrick & Blair 1995; MacGoldric & Ho 1992). Salmon and Tordjman (1989) characterise a standardised or "global" strategy as the replication of a single store concept across markets. It is unlikely that an international retailer would be able or willing to standardise all elements of the retail offer. Thus, the continuum perspective of



standardisation-adaptation is as appropriate in a retail context as it is in the export-dominated literature (Evans, et al. 2000; Evans et al. 2008). In an international retailing context, it has been suggested that an adapted strategy will also include standardisation of some elements. Salmon and Tordjman (1989) characterise an adapted marketing strategy as one with similar worldwide definition of store décor, pricing and service strategies, but adjusted merchandise assortment and advertising strategy to match the specific conditions of each foreign market.

*The interview data indicates that Adora, Zomaya, and Palela do not apply uniform strategies in response to pressures from the normative environment. Due to consumer sensitivity to price and underdeveloped state of marketing infrastructure and market research studies, Finnish retailers face the challenge of selecting the appropriate price model and marketing communication medium in Russia. The evidence from the interview data show that Zomaya selected standardisation strategy to respond to pricing and marketing communication medium pressures. In other words, pricing and marketing communication medium used in the Russian market are the same as those used in the home market, Finland. Standardisation of marketing communication medium in Russia is influenced by consumer's sensitivity to price, the nature of the product (fashion or apparent goods), and distance (the geographical proximity between Finland and Russia) particularly, St. Petersburg and Helsinki.*

The distance between Finland, particularly between, St. Petersburg and Helsinki and the immediate cities across the Russian border is a short distance by bus or train. For instance, there is regular daily train service between Helsinki and St. Petersburg, seven days a week. Thus, Russians usually travel to Helsinki and other Finnish towns near the Russian border to shop, hence, consumers are able to compare prices. Since the Soviet era, Russians are already familiar with Finnish shops and products. A reflection of consumer's sensitivity to price and the strategy of standardisation are reflected in the answer to the question: How do you go about your pricing, for example, some brands do you use different price levels for each country? [...] Mostly, we do not have any special prices, may be for outwear products we can have special prices, but in general for fashion products, the prices are the same. [...] Our customers in St. Petersburg are close to Finland so they can often compare prices. For example, they come to our stores and say, oh the prices are just the same like in Finland, I can buy here in St. Petersburg (Interviewee, Zomaya).

This finding is consistent with previous research in the area of price (Theodosious & Kastikeas 2001) who found that similarities across markets in the criteria customers use to evaluate a product similarity in price sensitivity impact customers'

response to price. Regarding promotion and marketing communication medium in Russia, in contrast to Finland where Zomaya uses television for advertising, in Russia, they seldom use television for advertising. In Russia, Zomaya took the customer perspective in its marketing communication and believes anyone can look good with their own style, and everyone can be 'Supermodel of her own life.' Thus, Zomaya standardised its marketing communication medium in Russia and use the same marketing communication medium as in Finland.

Zomaya personalise marketing communication by emphasising personality and passion, thus, never uses professional models in its advertisements. Zomaya's advertising is about fashion, but tells the message "Trust yourself, we trust in you." Usually, the faces Zomaya's ad posters are Finnish famous actors or actresses. For example, an interviewee commented [...] "last year December, the collection presented the Finnish ski team and it looked very nice and not like the other brands" (Interviewee, Zomaya). A reflection of standardisation of marketing communication medium is reflected in the answer to the question: Please tell me about your marketing practices in Russia (e.g., pricing, advertising, and promotion etc.). How different are they compared to that of the parent in Finland?

"Mainly pricing and promotion activities are the same, however some special country-specific campaigns also take place if needed. So far we had much less advertising and different marketing activities in Russia than in the other countries. In Russia, we mainly concentrated on point-of-sale (POS) activities. It is seldom that we use television for advertising in Russia. We use our stores as our promotion. The maximum we can have is perhaps some posters on bill boards in some good location. Actually, our position in Russia is that we are not using big marketers. However it will be different in future" (Interviewee, Zomaya).

"All the marketing comes from Finland. We don't have our own marketing department in Russia, but we are always constantly giving comments or feedback on how Finnish marketing can be applied in Russia, and what we can also use to improve sales in Russia using marketing issues. For example, people in Finland can easily recognise the people used in our posters because they are popular Finnish actors and actresses from local communities. For instance, in the autumn campaign was a Finnish singer and nobody knows her in Russia. People got the image from the face but they did not know that she is a famous Finnish singer. This is the difference but we are constantly working to get more recognisable faces on our marketing posters here in Russia" (Interviewee, Zomaya).

*Palela on the other hand selected adaptation strategy to respond to relevant pricing pressure, and standardisation strategy to respond to marketing communication medium pressure. Thus, Palela standardise its marketing communication me-*

dium in Russia by implementing the same point-of-sale promotion (POS) and in-store layout as the main medium for promotion. On the other hand, pricing is adapted in Russia to suit the target group and product assortment. This is reflected in the quotes to the question: how do you go about your pricing, for example, some brands do you use different price levels for each country?

“We try to be in the middle, we are little bit cheaper than hypermarkets so we are in the middle. If you have good location, it is typical to sell too cheap because you get the sales services and everything. But if you are in location that is price competitive, then you need to look at the price. So we rarely sell at low price. We consider the location first and then see how the price will be” (Interviewee, Palela).

“We took the so called approach where we price few products aggressively, but those products are few, and they are the most interesting groups for our clients. For our clients, fresh fish, fresh meat, and fresh fruits and vegetables are very interesting so we price those with very little margins. Our best product groups include fresh meat, fresh fish, and fruits and vegetables. So we price a couple of those products aggressively and the rest at normal margin. We use the Finnish business concept, business ideas and processes to the extent that it is possible in Russia, because not everything is possible here [Russia]” (Interviewee, Palela).

“Regarding marketing, we try to provide easy and convenient shopping, stimulating store with good location, neat and nice store lay out, nice product placement, and many cash line. We use in-store display as our marketing communication medium” (Interviewee, Palela).

*Adora on the other hand adapted both pricing and marketing communication medium to the Russian market. Pricing is adapted due to high tariffs on imported goods into Russia, while marketing communication medium is adapted to the Russian market due to the undeveloped nature of marketing infrastructure and marketing studies in Russia. A reflection of adaptation strategy in response to merchandise price and marketing communication medium pressures is illustrated in the following quote.*

RESEARCHER: Please tell me about your marketing practices in Russia (e.g. pricing, advertising, and promotion etc.).

INTERVIEWEE: “Pricing, if we talk about department store not food, prices are 10–15% higher than in Finland and the reason is the taxes and customs fees we are paying on imported goods. Basically, all goods that are imported into Russia are more expensive compared to Finland or EU countries” (Interviewee, Adora).

“With regards to advertising, one major difference in Russia compared to Finland is print advertisement. In Finland, we use print ads in the daily newspaper such as Helsinki Sanomat, Turun Sanomat. Whiles in Russia, we use television as our major medium for advertisement” (Interviewee, Adora).

The Department Store Division’s marketing organisation also serves the entire chain in all countries of operation. The campaigns are as similar as possible at each department store, but they are slightly adapted for the local operating environment (Director, ADORA Annual Report 2012).

*The evidence from the interviews indicates that Adora adapts its marketing communication medium to the Russian market.* Interviewee of Adora mentioned that the price of firm’s products in Russia are about 10–15% higher as compared to the home market (Finland) due to higher customs fees and import taxes. It is mentioned that prices of imported goods in general in Russia are higher and this is the same for all retailers in Russia, and not just Finnish retailers. One of the most important factors affecting the development of domestic content in Russia’s food sector is the state’s trade policy (Kaipio & Leppänen 2005). The Russian government wants to protect domestic industries the same way as other countries do. Therefore, protectionist policies are carried out in Russia by customs regulations, custom duties and various other requirements for importers, e.g. health certificates. All these measures increase the price of imported goods and create uncertainty among importers as reflected in the interviews. Furthermore, due to the undeveloped state of marketing infrastructure in Russia, Adora has to adapt its marketing communication medium to the Russian market. Whiles Adora never uses television for advertisement in the home market, Finland, in Russia, it is the opposite. As Jain (1989) noted, marketing infrastructure is the institutions and functions (e. market research agencies, advertising media, distributors, retailers) necessary to create, develop and service demand. For example, a director of Adora commented on the lack of sophistication of marketing infrastructure, and lack of marketing studies in Russia as follows. [...] “Marketing studies was difficult to find, because in Finland we would normally use direct mail, advertise in daily newspapers and use mail-outs to loyal customers – but never television or open air advertising.” [...] “In Moscow, we do the opposite, and we are undertaking – still on a small scale at this stage – our own marketing studies, because there are none available here,” she said, adding that the firm is already more able to reach its potential 1.5 million customers (Manager, Adora, The Russian Journal 2000).

Adaptation of marketing communication medium in Russia is reflective of the undeveloped marketing infrastructure due to the fact that during the Soviet era, there were no marketing research agencies or market research studies. Thus, with

the transformation from planned to market economy, companies have no existing marketing infrastructure to rely on. This finding is consistent with Sauna and Lengler (2009) who asserted that availability of media is dependent on the economic environment of a country. This finding show that only when marketing infrastructures are similar across markets is it feasible for international retailers to engage in standardised marketing communication strategies (e.g. Jian, 1989; Hultman, Robson & Katsikeas, 2009:4). This finding is in line with proponents of adaptation of promotion (Cavusgil & Zou 1994; Theodosiou & Leonidou 2003; Souna & Lengler 2009) who stresses differences such as legal regulations, competitive practices, and communication infrastructure influence adaptation of promotion.

*Price is also adapted by Adora and Palela in the Russian market due to government policy regarding import tariffs, and the characteristics of the product (fresh fish, fresh meat, and fresh vegetables).* This finding is consistent with Tacconelli and Wrigley (2009) who reported that before opening its first store in China, Carrefour identify the importance of fresh fish in China. Carrefour studied the preference of customers regarding the type of fish, presentation of fish and purchasing patterns in wetmarkets; and then adapted the familiar wetmarket display to their hypermarkets to capture fish sales (Huang, Donegan, Ganon, & Wei 2011: 450). Salmon and Tordjman, (1989) and McGoldrick (1989) prescribed elements of the retail offer that can be standardised or adapted to establish a successful position in a foreign market. These elements include merchandise quality, range and fashion, level of services, facilities, layout, atmosphere, location, quality of display, advertising, general reputation, reliability, price and image in general (McGoldrick 1998; McGoldrick & Blair 1995; MacGoldric & Ho 1992).

This finding is also consistent with previous research on pricing strategy (Samiee & Roth 1992; Sousa & Lengler 2009: 596) who asserted that a firm can enhance its performance if it can adapts pricing strategy to the characteristics of the foreign market. Sousa and Lengler (2009) stated that if a firm can achieve its market share and export sales volume goals at a particular price level; it would be unwise for a firm to set its price below that level just for the benefit of standardisation. Similarly, researchers Theodosiou and Katsikeas (2001), and Sousa and Lengler (2009) suggested that it would be unwise to market a product at a price level unreasonably high without considering the economic conditions of that particular market. Therefore, a firm can adapt its pricing strategy to a particular country as the market and economic condition of that country dictates. The economic development in a foreign country has been suggested to impact on the degree of price adaptation because of its impact on the prices that consumers are willing to pay for certain products (Souna & Lengler 2009).

On the other hand, *Zomaya adopts standardise pricing strategy in Russia*. This is reflective of the fact that Zomaya's business area is solely fashion and apparel. This is consistent with previous research which show that non-food retail chains adopt standardise pricing strategy across different countries (Swoboda, Elsner, & Morschett 2012: 12). With non-food products, price is normally associated with the consistency of a product's image across markets (Buzzell 1968) as well mark of quality to the extent across markets (Dawar & Parker 1994; cited in Souna & Lengler 2009: 602). Consequently, the adaptation of price strategy could damage the desired brand image across countries, and therefore have a negative effect on performance, particularly with reference to increasing consumer mobility around the world (Souna & Lengler 2009). The fact that internationally mobile consumers can create pressure for price standardisation was also reported by McGowan and Sternquist 1998).

*Differentiation strategy* – The interview data further suggest that subsidiaries of Finnish multinational retailers in Russia select a strategy of *differentiation* in response to normative pressures of *merchandise quality and market competition*. Research in industrial economics suggests two key competitive strategies that firms can pursue to achieve an above-average rate of return: differentiation and cost leadership (Porter 1980, 1985). A retailer that pursues a differentiation strategy and wants to differentiate itself from competitors through an image of “uniqueness” perceived by the customer, aims to increase the value of the product or service offered to the customer through its emphasis on product quality, service, price, distribution, promotion and brand differentiation (Porter 1980). To build a strong and defensible position in the market, the primary concern of the firm is to differentiate the company's offerings from those of competitors on some basis in order to create value for customers (Porter 1980). Retailers following differentiation strategy through maximising consumer choice, offer wide and deep product and service choices to benefit customers. Given the competitive retail environment in Russia, and Russian consumer's preference for quality products, the interview data suggest that Finnish retailers adopt differentiation strategy as a way to protect and defend their market share, and also to move away from the competition. This is reflected in the following interview quotes:

RESEARCHER: You talk about the competition, but like in grocery area, we have X5, Magnit, Auchan and others, how is it with your company concerning these other retailers?

INTERVIEWEE: “When we came here [Russian market], we decided basically to fight the whole way if we have the chance. We don't have a chance at price wars, and we will not have a chance there still in the long run, so we cannot win the price war. There are chains already with 30 hypermarkets with strong foothold in the market so it is not possible compete

on price. Our strategy is based on our strength or internal competencies. We are not having higher margins, but a reasonable margin because we are not high end supermarket. We don't go to the highest point and we don't go to the lowest point. We try to be in the middle, we are little bit cheaper than hypermarkets so we are in the middle. If you have good location, it is typical to sell too cheap because you get the sales services and everything. But if you are in location that is price competitive, then you need to look at the price. So we rarely sell at low price. We consider the location first and then decide on what the price should be. We are good quality supermarket for middle class, and price quality ratio is the main issues for us, and this goes with all our product assortments. We have decided that we will not be competing against discounters etc." (Interviewee, Palela).

"Our brand is reliable and if we have something under the label of Stockmann, it is to our benefit. So there are no challenges with our own brand or private label products. Some of our products are not made in Finland, but from other countries. For example, we have our private label in food department, for meals we have deli, which is produced locally in the department stores. Or we are having our own brands in food which are made here in Russia" (Interviewee, Adora).

"Our store concept offers an interesting shopping environment for all of our target groups. The store concept supports our wide range of products. Our goal is to be interesting, surprising and easy to approach for customers who are interested in fashion. We are constantly developing our store concept and infrastructural effects. For every project we try to develop something new so that our concept stays fresh and interesting" (Zomaya PowerPoint Presentation, 2011).

"Let us say that price level in basic product in Adora department store is not different a lot from our competitors. We should be the same level in pricing, but this is not the main point in our marketing that we should say that milk bottle in Stockmann department store should not cost more than it is in OKei. No, it is not something that we are willing to have only large volumes with huge discounts and low prices. We should be competitive, but then the quality is the most important thing in our food department, it is part of the brand. We focus on high quality and certain products which we can differentiate from our competitors, but at the same time, we should be like the market price, and we should not over price ourselves. We are still at least differentiating from our competitors in terms of quality and assortments. We have lots of our own private label or brands which our competitors are not having. This put us in a better position against the competition. The fresh counter for example is one of our strong points in our grocery area" (Interviewee, Adora).

“We do have segments in the food department where we have not so expensive, such as volume products and the prices for those products are really competitive. And we do have let us say not luxury, but products that we can differentiate from our competitors by the product assortment. In other words, we have products that they [competitors] are not having at all which brings some added value to our stores. We try to be different from our competitors or other grocery retailers at least here in St. Petersburg, on both quality and brand” (Interviewee, Adora).

“We always have wide assortment of high quality products, even wider than in Finland in key product groups at reasonable prices for target group customers (private label and other Finnish products). The key is reasonable prices, and not the cheapest prices. And we have this not very nice slogan of ours that we will not sell cheap. The supplier might be very good and have very nice products, but if it is a cheap quality product, we will not take it for sale. The reason is that St. Petersburg is a very difficult place for retailers. It is very easy to get caught up in the temptation of selling once. You cannot sell everything once, and the second part is trying to make a pricing decision” (Interviewee, Pelela).

“TONIKO Group has defined the factors which distinguish each chain from the competition. The distinguishing factors are customer promises which must be redeemed through practical operations every day. In addition to customer benefits, the Group wants to pay more attention to the customer experience as well. TONIKO Group is characterised by well-functioning and effective back office systems, for example, procurement, logistics and information systems, which provide cost-effectiveness and competitiveness. Now we want to focus increasingly on customer encounters, service, understanding the customer and interaction.” (TONIKO, Annual Report 2012: 45)

*The empirical evidence indicates that Adora, Zomaya and Pelela select differentiation strategy to respond to normative pressures of market competition and merchandise quality. Due to fierce completion from indigenous chains and foreign retailers who pursue low cost strategy in Russia’s grocery retail market, subsidiaries of Finnish multinational retailers in Russia differentiate themselves from the competition on product quality, assortment, and private brands. A private brand is any brand that is owned, controlled, and sold exclusively by a retailer (Park & Sternquist 2008: 285). It is argued that brand equity is an important asset of product differentiation (Gatignon & Anderson 1988). A multinational retailer having a strong private brand can develop differentiated products by providing exclusivity to customers. Russian consumers are brand oriented and prefer quality products, thus, differentiation strategy seems more sustainable in the long term. Differentiation provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. It also increases*



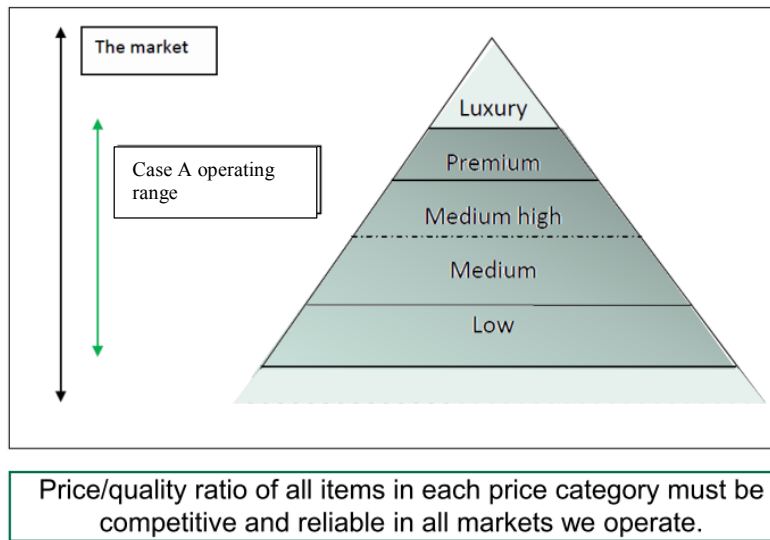
margins, which avoids the need for a low-cost position. The resulting customer loyalty and the need for a competitor to overcome uniqueness provide entry barriers (Porter 1980).

The case firms, Adora, Zomaya, and Pelela all have their own unique private label or brands which are well accepted by Russian consumers. This therefore offers Finnish retailers an added competitive advantage over local and other foreign or retailers, as they do not have these products in their assortment. In addition, Finnish retailers offer wide and deep assortments and high quality products, compared to domestic chains who pursue low cost strategy, and thus, offer narrow assortment and low quality products.

*Adora, Zomaya and Papela also adopt strategic positioning in the Russian market as a way differentiation.* Strategic positioning refers to a retailer's strategic posture that reflects the ability to differentiate product or service offers for customer target (Park & Sternquist, 2008: 287). Adora is a flagship department store in Russia with a commercial space of 20 000 square metres. Adora offer a wide range of international brands from premium to medium-low segments, own private label, high fashion, cosmetics, home products and food. Adora offer unique assortment of over 1.5 million stock keeping units (SKUs), and thousands of well-known international brands. In addition, Adora has the best Delicatessen in St. Petersburg, with a shop floor of 3 200 square metres with wide selection of fresh, high quality food (Interviewee, PowerPoint Presentation 2011).

Furthermore, Adora, Zomaya, and Palela adopted competitive quality-price ratio strategy to differential themselves from other competitors on pricing and quality. By offering customers a wide choice of items within a specialised product category, Adora, Zomaya, and Pelela have positioned themselves strategically against their rivals in the Russian market. Zomaya's major focus is brand identity, assortment strategy, new marketing concept, and new store concept. Zomaya designers create 12 collections annually and over 5000 unique products per year (Interviewee, Zomaya PowerPoint Presentation, 2011). The positioning of Adora and Zomaya against the competition in the Russian food retail market is shown in Figures 9 and 10.

### Competitive price / quality ratio



Source: Adora Company PowerPoint Presentation, 2011

**Figure 9.** Adora competitive positioning in the Russian market



Source: Zomaya Company PowerPoint Presentation 2011

**Figure 10.** Zomaya competitive positioning in the Russian market

Zomaya has launched a new differentiating marketing concept- “trust yourself” and “supermodels of your own life, volume 2.” The new concept, “trust yourself” aims to encourage women to enjoy fashion and look good, while “supermodel of your own life” campaign uses the faces of well-known people to represent self-confidence, charisma, and passion. For example, a manager commented [...] “Our brand identity will be evaluated and clarified to ensure success in the international strategy. [...] The goal is to find unique brand values which will make us a strong player in the competition and interesting brand in the customers’ eyes.” (Zomaya, Capital Market Day PowerPoint Presentation 2012).

Palela also offer wide assortment of different price categories of groceries in key product groups of stock keeping units (SKU) of 30 000 – 336 000 for supermarkets; and 45 000 – 67 000 for hypermarkets (Interviewee, Palela).

As the evidence from the interview data indicates, competition in the Russian grocery market in Moscow and St. Petersburg is intense. Finnish multinational retailers appear to be wise, and not underestimate the position of domestic chains. Adora, Zomaya, and Pelela make the decision not to compete toe-to-toe with local chains, hence took the path of positioning themselves between the lower and upper segments of the market. In other words, Adora, Zomaya, and Palela chose to serve the middle-class segment of the market, thus in a way differentiate themselves from the local chains on assortment, quality, and price. Adora, Zomaya, and Palela offer wide assortment of high quality products complemented with own private label products at reasonable price, which are well accepted by Russian consumers. For example, Adora has 15 fashion brands, 3 home brands, and 6 food brands to complete its wide selection of international brands. Adora’s products are designed by the company’s own team of fifteen designers. Rivals such as O’key and Magnit could not respond to Adora, Zomaya, and Palela’s positioning in the market by revamping their private label ranges, emphasising unique wide assortment and quality. Most of the stores of Adora, Zomaya, and Palela in Russia are also located in prime location in the city centre near metro stations or ring roads, thus making shopping more convenient.

An added advantage is that Russian consumers, particularly, those living in St. Petersburg are familiar enough with Adora, Zomaya, and Palela stores and products because of frequent shopping visits to Finland. This makes it easy for Russian consumers to replace limited regular products on offer by domestic chains with wide assortment and high quality products offered by Adora, Zomaya and Palela. Detailed knowledge of Russian consumers and their consumption habits have also helped Adora, Zomaya, and Palela to respond to consumer needs by providing unique retail concept, wide product assortments, and high quality brand

products offered at reasonable price, and targeted at specific consumer group, which led to success in the market. Adora, Zomaya, and Palela who operate in department store, fashion and food retail respectively position pricing firmly in the middle of the market. Prices are higher than domestic discounters and super-market but lower than hypermarkets and luxury ends of the market. Prices are generally high for all imported goods in Russia due to high custom fees.

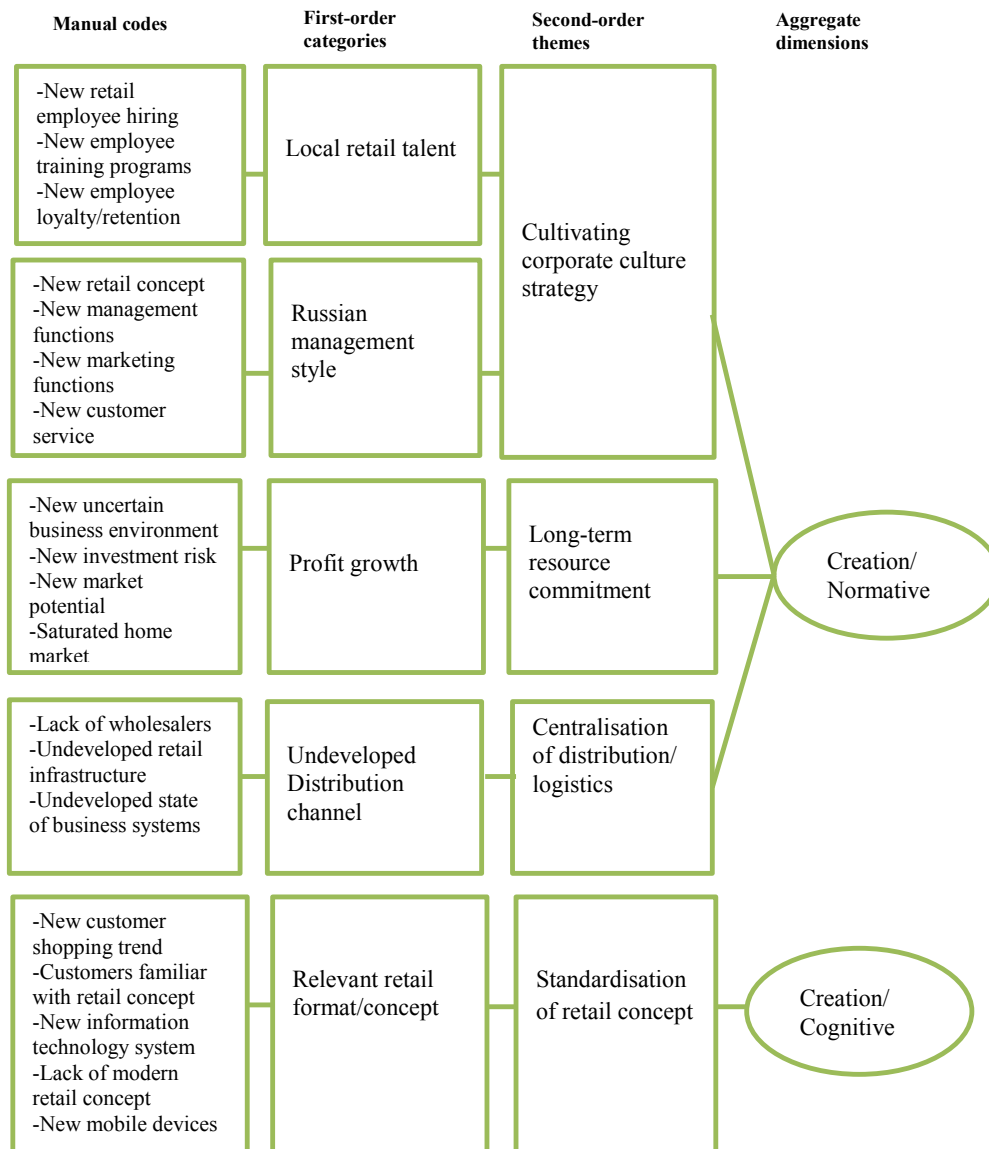
*The evidence from the interview data show that appeal and quality of product assortment, own private label products, store location, and brand are some of the dimensions on which subsidiaries of Finnish retailers in Russia differentiate themselves from their competitors.* Price is an important characteristic of a retailer; however, Finnish retailers have decided to move away from having price wars with other competitors in the market. Consistent with (Porter 1980), among the key factors on which Finnish retailers differentiated their offerings from competitors are product quality, brand and unique concepts, private label products of high quality, and service and store atmosphere. The main advantages of retailer's own brands are a need for independence from national and international brands, a desire to increase profit, a need to be different from competitors and to inspire customer loyalty. Retail brands are perceived as higher value innovations and their market share increases gradually (Corstjens, Corstjens & Lal 1995).

The finding also supports Jain's (1990) assertion that product line, competitive prices, strong market image and standing, strong prestige and esteem, strong and aggressive management, store and product design, superior customer service and retail know-how skills are some of the important dimensions for differentiating offers in international markets. Furthermore, this finding is in line with previous work (Schilke, Reimann & Thomas 2009: 36) who asserted that because the competitive market structure and its offering can differ across markets, applying standardised marketing mix elements across all international markets could weaken differentiation as a competitive advantage. Thus, under such circumstances, a non-standardised marketing approach may be needed to sustain the integrity of the differentiation strategy. The finding also supports Marinov and Marinova (2001, 1999: 128) suggestion that "strategy development and adaptation in Central and Eastern European (CEE) should be focused on creative differentiation, developing separate strategy for each country, based on re-evaluation of knowledge and experience gains across the region."

## 6.4 Strategy 3 – Creation of the environment

*Creation of the environment encompasses developing something that did not already exist in the environment (Zimmerman & Zeitz 2002).* This may require substantial efforts of the firm but perhaps with solid rewards. International retailers may not be able to locate in favourable environment but instead must work to create new environment to legitimate their retail structures and management practices. Retail transnational corporations (TNCs), especially those in emerging markets with poor retail infrastructure often discover new domains of operations that lack existing scripts, rules, norms, values, and retail models. For example, because of the newness of modern retailing in Russia and Central and Eastern European (CEE) countries, foreign retail TNCs such as IKEA, Metro, Tesco, and Carrefour were able to create a new business model in which growth and market shares were seen as the main investment objective. In emerging economies, each time a foreign retailer act as a pioneer in its sector, it is establishing the framework for the industry and the basis of operation for those that follow. Foreign retail TNCs seek legitimacy, but the basis from which they acquire legitimacy may not automatically be established; host constituents may be worried that the foreign retail TNCs' practices and behaviour does not match existing scripts, rules, norms, values, and models.

Retail TNCs frequently will introduce new concepts, products, services, and/or practices that shocks, violates, offends, and/or contradicts the existing social structure. Of the four strategies, creation and cooperation represents the least resistance to institutional pressures. The interview data suggests that in creating the environment, subsidiaries of Finnish multinational retailers experience four types of normative pressures: *local retail talent, Russian management style, profit growth, and undeveloped distribution channel*, and one type of cognitive pressure: *relevant retail format/concepts*. In addition, the interview data suggests that subsidiaries of Finnish multinational retailers cope with normative and cognitive pressures by deploying four types of strategies: *cultivating corporate culture/value, long-term resource commitment strategy, centralisation of logistics, and standardisation of retail format/concepts*. Figure 11 shows the manual codes, categories and sub-categories and the themes that emerge from the interview data for creation strategy. The first-order categories show normative and cognitive pressures from the institutional environment. The second-order categories show the specific strategies retailers employ in response to these pressures, and the aggregate dimensions show the strategic response choices retailers employ in response to normative and cognitive pressures from the institutional environment.



**Figure 11.** Examples of manual codes, first-order categories and second-order themes for creation strategy

6.4.1 *Creation- normative environment pressures*

Concerning normative creation, four major themes emerged from the interviews to characterise normative pressures subsidiaries of Finnish multinational retailers face in Russia. These four major themes are: local retail talent, Russian management style, profit growth, and undeveloped distribution channel.

*Local retail talent-* The retail sector is labour-intensive industry therefore; the inertial of institutional structures in a country is likely to hinder the application of new human resource practices such as recruitment. Human resources are of key importance for the retail industry. The quality of personnel is the quality of service provided for the customer. Therefore, retail should be the number sector who is interested in attracting high-level candidates. The industry is for people who love communication, who are customer-oriented and even philanthropic. Retail in Russia is a new development and is the most dynamic industry. These dynamics call for the development of employees. Thus, dynamic retail development brings along with it dynamic development of employees. Unfortunately, the business schools in Russia do not offer education in retail specifics to match the needs of business. The institutional environment of a country can influence the educational system and the structure of the educational curriculum. There is one feature of retail which has to be considered in the Russian context. The Moscow Times put it:

“The Russian education system provides an extremely broad spectrum of knowledge. It is no secret that young graduates do not clearly view trend of their future development and do not understand where they could implement their diplomas. Retail is in a good light again here – it includes a wide spectrum of different professions, gives an opportunity to work in different spheres – marketing, personnel, sales etc.” (The Moscow Times, 28 September 2012).

*All the case companies: Adora, Zomaya, and Palela reported that one of the major problems they faced regarding human resources issues is the availability of qualified retail talent.* In other words, there is shortage of well-trained retail personnel in the Russian market. Traditionally, one of the most attractive so-called “drivers” of employment for a Russian young graduate is fast career growth. However, retail cannot suggest rapid career growth due to its peculiarities. For instance, to manage a hypermarket or even a department (and that means managing large number of product categories, prices, stocks, customer and suppliers) it requires being deeply involved in retail and gaining relevant professional experience. This therefore requires more time than for instance, to become a senior manager in a small restaurant. This therefore created large gap in demand and supply of retail talent. In other words, there is a shortage qualified retail professionals in Russia’s retail sector. A reflection of this is illustrated in the following quotes:

RESEARCHER: Please describe the challenges you faced concerning human resources in Russia’s retail market.

INTERVIEWEE: “HR in the retail sector is basically the biggest challenge in Russia, particularly here in St. Petersburg. It basically means that

the whole HR is really a heated situation and this arises from huge staff turnover. I am not talking only about Adora, but about the whole HR market which is happening here in St. Petersburg and in Moscow. Basically, there is not at all unemployment in St. Petersburg and Moscow. In real life in St. Petersburg and Moscow, if you can walk and talk, you can find a job. New brands or retailers are entering the market all the time so there is constant demand for staff or vacant positions all the time. This brings the biggest challenge to HR supply and demand equation. So it means higher staff turnover, and higher staff turnover means more need for training to ensure good quality staff and customer service and so on” (Interviewee, Adora).

“At the moment, Russia is employees market, which means there is lack of people or workers. No retailer can find enough employees for their shop at the moment because it is an employee market, In other words, there are more vacant position than enough people to fill them. The employees are calling the tune at the moment, especially in retail business” (Interviewee, Palela).

“Unemployment rate is 6.3% in Russia 2011, and basically in big cities like St. Petersburg, in practice it is zero (0%). Basically, everyone in St. Petersburg can get a job. Thus, unemployment is really low and there is high staff rotation (turnover). This brings some challenges in retail business. For instance, we have the same amount of staff rotation in one month in our stores in St. Petersburg as the whole year in our stores in Finland. Thus the staff turnover figure here in St. Petersburg is pretty high and that is not a problem just for our company alone, but problem for all retailers in St. Petersburg. You can see that when you go to any cafeteria or wherever, there are this small cards or notices asking would you like to work with us” (Interviewee, Adora).

Companies as well as agencies themselves experienced a huge shortage of potential candidates for the majority of positions due to specifics of the Soviet-style education and business, lack of needed qualifications and experience, as well as the overall poor foreign language skills in Russia (The Moscow Times, 18 April 2012).

“There is this kind of system here in Russia where the salaries are growing quite faster and there is quite bigger differences, let us say between retail salaries than in Finland. This brings so much challenge that we are having even sales person headhunted from us by other retailers. Other retailers often contact our staff and ask them what is their salary level and are willing to pay let us say 5% or 8% more and this is the challenge that retailers face in Russia” (Interviewee, Adora).

“As we are a chain, all our human resource policies are as much common as possible. The only challenge we face in Russia compared to other coun-



tries: higher administration work load to store staff (therefore we need to have some special positions like main cashiers, who are in charge of store bookkeeping and are in close contact with central bookkeeping besides his/her main selling responsibilities). We have longer working hours and working on holidays (here we just follow local legal norms and make our best in planning working hours as efficient as possible (Interviewee, Zomaya).

“What makes the labour market so difficult? The unemployment rate in Moscow is less than 0.6% (according to Rosstat data from December 2012 and some independent estimates go as low as 0.3%. This means that out of 300 people you meet on the street, 299 will have jobs. They may not all like them, and more than half would reply in the affirmative if approached by a head-hunter.” (The Moscow Times, 02 April 2013).

“These days, as always, we are short of professional, experienced and well-educated potential candidates. Recruiters, both external and internal are constantly searching the market with the only purpose to identify and attract the best available talent (often starting almost with the candidates' school days or first years at college). The mobility of employees has finally started growing in both directions (from Moscow and St. Pete and backward from the regions), though certain regional preferences and specific compensation demands are obvious and the rise in mobility not being of any substantial help under the influence of the Russian demographic pitfall.” (The Moscow Times, 18 April 2012).

According to the annual demographic report of Transition Economics Institute, by 2016 the number of employees in Russia will decline by 18-19 million people (The Moscow Times, 28 September 2012). Considering the fact that presently, the number of employees in the Russian economy is approximately 67 million people (The Moscow Times, 28 September 2012), it is clear that decline in the population more than a quarter will bring serious problems in Russia's economic engine. In the near future the active labour force of Russia will become the most challenging if not the greatest deficit resource. For example, The Moscow Time noted that “Russia's population is expected to fall from the current 143 million people to 109 million by 2050, according to a U.S. Census Bureau report. The Russian government has taken a number of measures to lessen the decline in population which is reflected in the following quote: “Scared by the prospect of having no one to rule, the Kremlin launched a major "mother and child" reform during Putin's last stint as president, which saw the birth rate turn positive for the first time in modern history in 2009. [...] And last year, Russia recorded the first increase in its population since 1991: the population grew from 142 million to 143 million, albeit partly fuelled by strong immigration” (The Moscow Times, 17 October 2012).

It is anticipated that young and ambitious employees will become the most in-demand resource. Therefore, one can expect a “fight for the youth” in the nearest future (The Moscow Times, 28 September 2012). The retail sector was the first among other sectors to experience this problem as evidence in the interview data. Normally, retail operations require large labour force, as well as fast-moving-consumer-goods (FMCG) market. With many foreign retailers entering the Russian market each day and competing for retail personnel, the situation is not getting any better. The focus on heavy manufacturing during the Soviet era left a legacy of differences in knowledge and familiarity with Western concepts and practices of retail. This finding is in support of Sparrow, Schuler and Jackson’s (1994) assertion that human resource is strongly affected by national dynamics, institutional factors, culture and local norms.

The evidence from the interview data also suggest that the availability of qualified retail professionals in Russia’ retail sector is a major challenge to the whole retail industry. Certainly, the finding of this study shows that in the human resource area, particularly regarding retail talent (retail professionals) in the context of Russia is a scarce resource and therefore a more extensive skill set. The effect of low unemployment rate in Russia and the fact that it is an “employee market”, i.e. demand for workers is more than the market can supply means competition for available retail talent is intense. Excess demand for workers in turn increases high employee rotation or turnover, since qualified employees are often head-hunted by other competitors with the promise of higher salaries. This cycle thus put more pressure on the operations of retailers.

The human resource situation is also worsened by the attitude of supervisors in Russian companies towards employee development. On this issue, Holden and Vaiman (2013: 139–140) noted that “Russian business people are very short-term oriented (another important cultural dimension), and when a company hires a manager, he/she is placed in jobs that require his/her current expertise, and normally no consideration is given to the set of skills and abilities this manager should develop in the future in order to be more instrumental to his/her company.” Furthermore, Holden and Vaiman (2013) mentioned that Russian companies have no time to develop their star employees, because stars are in demand now, and not necessarily in the future. This mentality appears to be problematic for Russian companies to see human resource management (HRM) issues as strategic (Holden & Viaman 2013).

The findings also suggest that the Russian educational system contributed to the shortage of retail talent in the Russian market. This is consistent with Holden and Vaiman (2013:139) who in reference to management development in Russia

pointed out that “some expert note that most Russian nowadays still lack high-class business experience, which in part may be explained by a relatively young age of Russian business culture and rigid educational system” (Puffer & McCarthy 2011; Fey & Shekshnia 2011; Fey 2008). On this issue, Holden and Vaiman (2013: 139) pointed out to another reason offered by Professor V.S Kat’kalo, Dean of the St. Petersburg University’s Faculty of Management, who noted that Russian managers are not up to date with the latest ideas in management in other countries (Kat’kalo 2009; cited in Holden & Vaiman 2013: 139). Therefore, the development of qualified managers, which started in the late 1980s, has been not only a gradual process, but also an uneven one (Holden & Vaiman 2013).

The evidence from the data also indicates that there are demographic factors that are changing the shape of the work-force, with a decrease in the number of young people entering the job market (e.g. Fombrun, 1984). This clearly has a knock-on effect on human resource strategies in areas such as how to attract and retain retail professionals in the organisation. This important non-marketing factor (retail talent retention) or employee attraction and retention/loyalty is not covered in detail on its own in the literature on retail internationalisation process, but as the evidence from the interview data show, has overriding importance to operations of retailers in Russia.

This finding therefore suggests that retail employee attraction and retention/loyalty has overriding importance of retail FDI operations in Russia. This finding is in support of Aoyama’s (2007) assertion that employee loyalty is of key importance to Carrefour’s operation in Japan, and it is the single most important factor in terms of employee motivation much more than salary or other tangible rewards. Aoyama (2007) went on to say that few non-Japanese companies clearly appreciate this fact, and many thus have hard time to attract and keep good staff. Likewise Holden and Viaman (2013: 141) affirmed that “in general, experts agree that real talent in Russia are not motivated solely by money. This finding is also consistent with Au-Yeung (2003: 147) who showed that human resource (competent employees) is the most crucial issue for foreign retailers in China. It holds that foreign companies are a popular place of employment in Russia partly because they often pay by experience and ability, allowing some Russians to receive much higher salaries than they would at domestic firms, but also work practices often provide more freedom and more objectively structured than traditional Russian companies Holden & Viaman 2013). Along with language abilities and the influx of many foreign retailers seeking employees who have worked at other foreign firms, this has led to a pool of bilingual Russians who make regular job changes in search of higher salaries. This situation therefore creates huge personnel problems for many retailers.

*Russian management style* – Many Russians lack basic business skills due to the historical absence of capitalist-style businesses in Russia (Puffer & McCarthy 2011; Fey & Shekshnia 2011; Fey 2008). The traditional image of Russian leaders as authoritarian holders of unquestioned power in the Soviet era is still reflected in modern day Russian business management style (Fey & Shekshnia 2011; Holden & Vaiman 2013; Michailova 2002). Due to Russia's transformation from a communist to a capitalist society, most Russian managers possess very little traditional management training and limited experience in many areas of business (Fey & Björkman 2001). During the Soviet era, Russian managers tend to be highly educated in some other area as science/engineering due to the government focus on these disciplines and the high priority Russians give to high education.

During the communist era, personal initiatives were not only discouraged but were also punished (Puffer 1993). The hierarchical nature of the Russian society also discourages individual responsibility taking and initiatives on the part of middle managers (Elenkov 1998), something that Western expatriates have viewed as a common problem in Russia (May, Young & Ledgerwood 1998). All the case companies: Adora, Zomaya, and Palela reported that one of the major challenges they faced regarding employees is the unwillingness to take personal initiatives. In other words, Russian employees are unwilling to take decisions on their own regarding their work, but rather prefer to be told by the boss what to do. The interviewees consider this cultural behaviour to be a major challenge as compared to Finland where employees are used to organising and taking responsibility for their work. A reflection of this problem is illustrated in the following quote:

RESEARCHER: Please describe the Russian management style and the challenges you faced.

INTERVIEWEE: "If we are having new managers, it is of course a challenge to train them to work in our company's way in management. If we talk about overall Russia, there is of course big difference, which I know from observing our partner. For example, it is much more like authoritarian, that the boss is the boss and everyone is acting after the boss, and the boss telling what to do. So yes, there are cultural differences but I think that we have overcome those quite well" (Interviewee, Adora).

"In Finland, we are very democratic, you leave your employees to make decisions on their own and come to conclusions, which is very nice to do with Finnish people. Here, [Russia] if you don't basically give direct instructions and very direct and specific goals that you want to be achieved, you are really in trouble. Here, [Russia] employees needed to be given direct instructions such as who is doing what, and who is responsible for what. And responsibility means to be very concrete. You cannot think that people would think by themselves that when I do this, then I am responsible for it as well. You need to tell them ok, you are responsible for this

and this project, this are the goals and this is the due date. Don't work in Russia without due dates. It is more or less dictatorship kind of people management. It is not like in Finland where you can say for example, would you be so kind to do this project for me and I want it next week Monday. In Russia, you have to be more concrete" (Interviewee, Palela).

"May be one thing Russian employees lack is commitment which is pretty different from Finland. For example in Finland, you always appreciate and value the stableness and reliability when you are working for a certain company. In Russia, those values are not appreciated we are having problems like when we have just trained someone to be sales manager and then another company approach him or her and offered for example, 500 Rubbles and then that person left the company. So these are some of the challenges we are facing, and this happens not only at sales manager level only but also at department manager level as well" (Interviewee, Adora).

The evidence from the interview data indicate that Russian management style which is a legacy of the Soviet era is a problem for subsidiaries of Finnish retailers operating in Russia. These differences can be attributed largely to differences in the institutional environment of Finland and Russia. Russia's management style is influenced by the Soviet era legacy of planned economy, while Finnish management style is influenced by market economy. Indeed, as Blom (2008; cited in Holden & Vaiman 2013: 139) has noted: "the whole environment of managerial action is shaped by the old type of bureaucratic elite." Similarly (Shirokova, Vega & Sokolova 2013: 176) stated that "an autocratic management style reflective of the Soviet era, when the centralised economy was seen as an extension of politics and the failure to achieve economic objectives was seen as crime, continues to dominate the management of Russian firms." Shirokova et al. (2013) mentioned that Russian management style is characterised by centralised decision-making similar to military discipline, while inside the firm there is usually a selected circle of trusted managers who are given more freedom and rewarded than others (McCarthy, Puffer & Darda 2010).

As the evidence from the interview show, as a result of the legacy Soviet era style of management, participation and empowerment of employees to take responsibility for their job seem to be a daunting task and a long process. This finding is in support of (Puffer 1993) who noted that during the communist era; personal initiatives were not only discouraged but were also punished. Elenkov (1998) also noted that the hierarchical nature of the Russian society discourage individual responsibility taking and initiatives on the part of middle managers is something that Western expatriates have viewed as a common problem in Russia (May, Young & Ledgerwood 1998). The finding is also in support of (Michailova 2002: 184) who mentioned that the "suppression of the individual at the expense of the

group/collective/class/society during the socialist era allowed employees to hold back from taking actions and feeling responsible for the organisational behaviour and results.” This finding also goes to illustrate the fact that although firms in Finland and Russia are geographically close, they exhibition different management style and practices. Therefore, this finding is similar to Orru, Biggart & Hamilton (1991) who found that firms in Japan, South Korea, and Taiwan, although geographically and culturally similar, display different management practices. The authors attribute this variation to differences in each country’s institutional environment.

*Profit growth* – Profit growth is one of the important motives that drive retailers’ international expansions (Evans et al. 2008). The fast international expansion of retail since the 1990 has not basically been a defensive reaction to overreliance on the home market, but has also been the result of the desire to sustain profit growth, in other words, equity valuation by making use of surplus cash flow to obtain revenue growth (Wrigley 2005a). Pressures from home-country financial institutions and shareholders to make profits and dividends is thus a major factor, therefore new markets offer several opportunities in respect. For example, potential fast economic development and rising level of affluent consumer spending and retail sales, combined with low levels of penetration of Western forms of large store retailing and assorted distribution systems. Transaction cost theory argues that market potential influences the amount of resources a firm is ready to commit to a market (Brothers, Brothers, & Werner, 2000). Market potential refers to the size and growth potential of a foreign market (Lu et al. 2011).

The internationalisation motives of the retailer can be divided into internal and external motives. The internal motives include the desire to increase the awareness of the company, create market share, increase company’s profitability, will to expand into foreign markets, gain cost advantages and spread the company’s risks geographically can be considered as the major strategic objectives of Adora, Zomaya, and Palela to enter the Russian market. These objectives represent the internal factors motivating retailers to expand into foreign markets. In addition, the foreign expansion motives of Adora, Zomaya, and Palela can be described in terms of external motives consisted of push and pull factors. The “domestic push” factors encourage international expansion as the result of environmental or company specific conditions in the domestic market of the retailer, while the “market pull” factors are those attracting the retailer into a host market. These two sets of factors are the two main motivating factors for retailers seeking to develop a presence in foreign market. In this study, the saturated/matured home market, the existence of restrictive legislation in the home country inhibiting expansion, growth

of large scale retailers, and increased competition at home country are mentioned as factors exerting pressure to venture into the Russian market.

Adora, Zomaya, and Palela all decided to the move into the Russian market because growth in the home market, Finland had slowed down, the home market population is small, trade margins had shrunk and domestic completion is fierce, and the home market has reached a saturation level. Due to sales decline in the home market, and the disire to benefit from the long-term growth opportunities in the Russian market, international expansion was the obvious route for Adora, Zomaya, and Palela. In terms of pull factors, which are favourable conditions drawing retailers into the host market, the growth opportunities within the Russian market namely: changes in the political environment, market size, rapidly growing middle class, fragmented retail sector, changes in consumer lifestyles, increasing consumption in cities with population of 300 000 to 700 000 people, development of modern retailing, and the liberalisation of retail FDI are some of the major factors.

Aora, Zomaya, and Palela emphasised the effect of the demographic, economic, socio-cultural, technological, legal and political factors as the major factors drawing them into the Russian market. Russia is a country with a growing middle class. The existence of potentially large market opportunities in Russia and above the marginal opportunities in the saturated Finnish market was the main reason for Finnish retailers' expansion into the Russia market. The size of the Russian market and the level of economic prosperity, particularly, the rising the middle class, and the liberalisation of foreign direct investment in the retail sector, coupled with the undeveloped retail structure provide huge market potential for Finnish multinational retailers. This is illustrated in the following quotes:

“The retail market in Russia is very big and the retail market of St. Petersburg amounted in 2010 approximately to 17.4 billion euros, of which daily goods are 50%. The market growth will continue in the near future as the income of the population increases 5–10 % yearly. The Russian market represents a potential growth for Finnish retailers because the market is very big. Approximately, 10–15 of the population belongs to the middle class, whose purchasing power is on the so called European level. The share of middle class in the population continues to grow. Share of income used on food products is considerable, which means that the importance of price level is big. Basically, the Finnish market is very small and the size of the population is very small. The market is already divided among local competitors and there is only one foreign competitor in the market, Lidl and they are not finding it easy” (Interviewee, Palela).

“Back to the late 1980s, we realised that long-term growth opportunities for department stores is no longer in Finland because of the small market. We also realised that the profitability of department store operations demand a population of 250 000 in the catchment area. So internationalisation became the only option, but how? So we face the question of where do we expand? This was the issue we discussed in the 1980s quite a lot. Gorbachev’s rise to power (perestroika, glasnost) created the possibility to open own permanent stores in Russia. This gave us the opportunity to start different businesses in Russia as well. The first department store was opened in 1998, and this marked the beginning of our expansion to Russia. The second phase of the internationalisation started with the dramatic fall of the Soviet Union in 1991. This created opportunities to enter the market and basically expand the operations into the Baltic States” (Interviewee, Adora).

“We are profit-oriented company, and we are not just playing games. We are in a business of making money and we are trying to be profitable, because profit is important for the development and future growth of our company. Our plans for 2012 in Russia is that we expect to have sales growth of 11% and we are focusing on existing business units and try to obtain better performance from these units we have already. Regarding opening strategy, our number one priority is of course Moscow and St. Petersburg area where the biggest flow of revenue comes from, and cities where we are already operating such as Ryazan, Ekaterinburg and new cities located in central regions of Russia. Of course, to continue our development activities, we need to be profitable” (Interviewee, Zomaya).

“In the supermarket trade specifically, TONIKO Group is reaching the limits of growth in Finland. Therefore, expanding operations to neighbouring countries make sense; in order to ensure that procurement power is maintained and increased” (TONIKO Annual Report 2012: 33).

“The international dimension is today a key factor in the success of the company’s operations. Operations are well established, particularly in the Nordic countries, Russia and the Baltic countries. As a consequence of the economic uncertainty in Europe, the company’s international expansion has a more decisive role to play in profitable growth strategy” (ADORA Annual Report 2012: 6).

The Russian retail sector is the most rapidly developing sector. Consumer spending (75 percent of income is spent on goods and services versus 30 to 40 percent in Europe) is strong and across the country, not only in Moscow (The Moscow Times, 11 March 2013). Finnish retailers have therefore positioned themselves to take a slice of the pie of this fast growing market. *The evidence from the interview data show that the need for profit growth driven by saturated domestic market*



*growth opportunities in the Russian market influence Adora, Zomaya, and Pallela's decision to enter the Russian market.* This finding is consistent with the literature on international retail regarding motives for retailers desire to expand into foreign markets (Salmon & Tordjman 1989; Alexander 1990; McGoldrick & Fryer 1993; Simpson & Torpe 1995). This finding also supports (Chan et al. 2011: 1007) assertion that multinational retailers also consider the potential of their investment in terms of the size and of growth potential of the host country market. Similarly, Alexander (1990) noted that the size of the market was the second motivating factor for UK retailers with international operations to enter new markets.

*Undeveloped distribution channel* – The distribution infrastructure in Russia is generally poor. Prior to transition from planned to market economy, Russia like other communist countries, was shortage economy. Production and distribution of goods were planned and supervised by the central planning bureau. Most of the marketing and distribution channel at that time were state-owned. Wholesale and retailing existed only for administrative purposes. The dismantling of the centrally planned economic systems was followed by a period of rebuilding. Therefore, trade structures such as wholesale and distribution systems had to be built from scratch. The old system in which food supply was based on the production of specialised Soviet republics was replaced by normal foreign trade. At the same time the food sector based on state organisations was replaced by private entrepreneurs.

In the beginning of the 1990s, the main players in the food retail sector were privatised state shops, open markets, and kiosks. Following the 1998 economic crisis, the characteristics of Russia's distribution system were the central role of Moscow as the distribution centre of Russia and the smallness and low level of development of regional wholesalers and distributors (Ruuhonen 1999). Consequently, goods were first brought to Moscow and from there sold to regional wholesalers. The distribution system in Russian at that time could be described more accurately as pick-up system, since in every stage of the distribution chain, the customer (wholesalers, retailers) usually used their own transport to pick up the merchandise by themselves from the seller (Rouhonen 1999). According to Rouhonen (1999), Western producers used five types of distribution solution in Russia in 1998: outsourcing of distribution to single Russian partner, creation of a network of local distributors, using a subsidiary, creating a completely own distribution network, and local production.

Today, the distribution system appears to be still relatively disorganised in Russia. The roles of the actors in the distribution chain are often not clear, which

complicates the situation especially from the viewpoint of foreign retailers aiming at the Russian market. For example, the wholesaler is often also the importer and the distributor. The distribution system has improved during the last 15 years. A major change concerns the so-called “pick-up system” pointed out by (Ruohonen 1999). Particularly in the 1990s, it was very common that the retailer picked up the goods from the distributor. Presently, this older system and a more modern system in which the merchandise is delivered to the retailer co-exist. The later system is becoming more common due to the development of modern retail chains. In foodstuffs, the distribution system is an important factor influencing competitiveness.

The underdeveloped state of the distribution system is considered by Adora, Zomaya, and Palela as an important factor affecting their operational activities in Russia. Finnish multinational retailers seem to share a number of issues they considered challenging in the distribution system in Russia. Firstly, Adora, Zomaya, and Palela pointed out the inefficiency caused by fragmentation and decentralisation of the distribution system. Second, working with large number of small distributors generates complexity within the distribution system. One reason behind this is that wholesalers are highly specialised. For example, one sells fish, the other sells vegetables, and the third sells vodka. Finally, retailers experience problems with small suppliers because of lack of technology and developed product flow systems. Small retailers have difficulties in meeting the agreed delivery time and high quality requirements. For instance, Adora, Zomaya and Palela emphasise lack of logistics operators, i.e. firms that would build logistics centres with high quality warehouses and sell logistics services in Russia. A reflection of how undeveloped distribution channel exert pressures on the subsidiaries of Finnish retailers in Russia is reflected in the following quotes:

RESEARCHER: Please can you provide a description of the distribution channel in Russia?

INTERVIEWEE: “The main challenges are that there are no wholesalers, so you get lots of trucks at the back door, and lots of small companies. At the moment, we have 450 suppliers and the main reason for this is securing availability, and the absence of real wholesale operations in Russia market. The products come from customer through the logistic corridor from 4 o’clock in the morning in cages, and in shelving order. After that the goods are put on the shelves so we have just little time and it is a bit hectic. For example, at the Moskva store, we have about 7000 receipts of goods per day, so there are lots of customers and the store is never in order and it can never be. Because there are so many clients going through the shop, and when you get it into order, then within a short time, it is back to a mess again. Here, we have 50–60 trucks at the loading deck all day long” (Interviewee, Palela).

“We decided to deliver products to our store ourselves. It is the question of efficiency that we have chain buying and we are able to maintain the department store concept. And why we are having this logistic ourselves concerned decision made that we are willing meet the delivery times and control everything in our own company” (Interviewee, Adora).

“If we talk about suppliers, here, they are not as reliable as let say in Finland. So you need suppliers for fresh fish, fresh meat, and fresh vegetables and you need small suppliers for everything. For example, there is container delay and the customer needs some samples, so you we need to have many suppliers for fresh food. This makes it to have doubled the number of suppliers for the same good that are coming from different people. We order the product from the supplier, and suppliers transport the products to each store by their own transport. We also make options three times a week for fruits and vegetables” (Interviewee, Palela).

“The demand for warehouse space in Moscow is breaking records as the increasing number of malls and chain stores ups the need for high-tech storage, shipping and product assembly. With the warehouse vacancy rate hovering at 2 percent since the end of last year, "we're selling and leasing space that hasn't even been built yet," Lance Pilant, director of industrial and logistics agency services for CBRE, said in September. This is the first year he has brokered sales and rentals of yet-to-be-completed warehouse space, he said by telephone. Pilant estimated that more than 800,000 square meters of logistics space could be opened in the next 12 months. So far this year, developers have built more than 520,000 square meters of warehouse space in Moscow and the Moscow region, or almost double the amount in the whole of last year, Knight Frank said. Yet in spite of the booming construction of warehouse complexes — also called logistical parks or industrial parks, as some sites are used for storing goods in transit while others are used for light manufacturing — demand exceeds supply (The Moscow Times, 13 November 2012).

[...] In another sign of demand, the 60,000-square-meter section of the Dmitryov Logistics Park that opened about 30 kilometers north of Moscow was fully leased before construction was finished, said Pilant, whose firm negotiated one of the rental deals (The Moscow Times, 13 November 2012).

The evidence from the interview data suggest that indeed the distribution channel in Russian is underdeveloped and thus exerts pressure on the operations of Adora, Zomaya, and Palela. The evidence from the interview show there is shortage of logistics operators, i.e. firms that would build logistics centres with high quality warehouses and sell logistics services. Due to fragmentation of suppliers of specialist products such as fresh fish, fresh vegetables, and fresh meat, Adora and Palela have to deal with numerous suppliers in order to ensure product availability

and delivery on time. Due to fragmentation of the distribution system, small suppliers have to deliver goods to the store of the retailer daily, and sometimes several times a day, and this create traffic conjunction at the backdoor of the store.

This finding is also in support of Marinov and Marinova (2001) assertion that due to the legacy of the Soviet era, the distribution channel in CEE countries represent a major problem to FDI. Likewise, Roberts (2005: 53) noted that poor infrastructure is a hindrance to effective and efficient distribution in Russia. The supply chain in Russia tends to be highly fragmented and notoriously difficult to manage (Roberts 2005:53). Lack of large-scale wholesalers mean retailers are forced to rely on many small suppliers (Roberts 2005). Likewise, Lorentz and Lounela (2011) also noted that the undeveloped logistics infrastructure complicates the delivery of products to other regions in Russia. This finding is in support of (Rouhonen 1999) assertion that older system where the retailer has to pick-up the goods from the supplier co-exist with the more modern system in which merchandise is delivered by the supplier to the store of the retailer.

This finding is also consistent with (Kaipio & Leppänen 2005) assertion that even though the distribution channel in Russia is still fragmented, it is beginning to resemble those applied in Western system at least on the retail chain's end of the distribution chain, as chains with fewer shops tend to use wholesalers that bring the goods directly to the stores. As wholesalers are typically very small and or have specially limited type of products, this system causes a lot of "traffic jam at the backdoor" (Kaipio, & Leppänen 2005). This finding also supports the study by Roberts (2005) which showed that the supply chain in Russia tends to be highly fragmented and notoriously difficult to manage (Roberts 2005:53). Therefore, lack of large-scale wholesalers also means retailers are forced to rely on large number small suppliers in order to ensure product availability (Roberts 2005).

#### 6.4.2 *Creation strategies in response to normative environment*

As international retailers expand to foreign markets, they export corporate cultures and business practices shaped by the institutional environment of the home market (e.g. Christopherson, 2007; Christopherson & Lillie 2005). In other words, they are shaped by their 'societal embeddedness' in the institutional, regulatory, and cultural context (national-level industrial relations systems, company management practices and so forth) of the home markets from which they have originated (Duran & Wrigley 2009). The success of that export depends on the affinity- ex ante or ex post- between the institutional characteristics associated with the 'variety of capitalism' in the home market and the characteristics encountered in the host market entered. In the interview data, three strategies: *cultivating corpo-*

*rate culture/value, long-term resource commitment, and centralisation of distribution/logistics* emerged as strategic action taken by subsidiaries of Finnish multinational retailers in response to the four normative pressures identified in creation of the normative environment.

*Cultivating corporate Culture/value* – The interview data indicate that subsidiaries of Finnish multinational retailers respond to normative pressures of *local retail talent* and *Russian management style* by *cultivating corporate culture/values*. The word “culture” has many meanings, various connotations and different definitions and there is no agreement among researchers as to its exact meaning (Weber & Tarba 2012: 292). But there is one definition of management culture that points to the ability to predict many phenomena, including the success or failure of retail internationalisation. According to this definition, management culture is a developing system of beliefs, values and assumptions shared by managers about the desired way of managing the organisation so that it can adjust to its environment (Chatterjee, Lubatkin, Schweiger & Weber 1992; Lubatkin, Schweiger & Weber 1999; Migliore 2011; Rosenblatt 2011; Schein 1985; Weber & Tarba 2012; Weber & Pliskin 1996; Weber 1996). Organisational culture is based on visionary ideas and appears to reflect the shared behaviours, beliefs, attitudes and values regarding organisational goals, functions and procedures which are seen to characterise particular organisations (Furnham & Gunter 1993, cited in Vadi & Vereshagin 2006: 190) Corporate culture is an acquired system of knowledge and frameworks of reference that make the understanding and explanation of what occurs in the organisation, in the sector and in the world at large (Weber & Tarba 2012: 292). Russia has been a problematic context for implementing Western management practices which emphasise openness in workplace relationships, knowledge creation and the importance of individual initiatives (Holden & Vaiman 2013).

This is due to the legacy of Soviet-style management with its emphasis on tight, completely autocratic control of people and procedures and top-down communication between managers and subordinates (Holden & Vaiman 2013; Koveshnikov, Barner-Rusmussen, Ehrnrooth & Mäkela 2012; Fey & Shekshnia 2011). As managers and employees with experience only in Soviet style organisation are unlikely to be effective when managing and working in market-oriented organisations, Adora, Zomaya and Palela have to train managers in the company’s way of doing things. In other words, managers and employees have to learn the organisations culture and values. This is reflected in the following quotes:

RESAERCHHER: How did you deal with challenges regarding local retail talent retention and management style issues in Russia?

INTERVIEWEE: “Mostly, it is about training, it is about showing examples and when we started in Russia, we use to have many expatriates/employees from Finland with strong parent company background who work here and show by example. At the moment, we are not having anymore lot of expats here in Russia, but the culture is like already entrenched here inside the company. Basically, it is about the training, it is about leadership by example and giving instructions. There are some challenges that we are working on every day. In Russia, the culture is like everyone is specialist, and in Finland, everyone is more or less doing everything. So this is a challenge. For example, if you are a salesperson and the staff turnover in sales persons is much higher than in management, then there are some challenges that if you are salesperson you cannot understand why you should for instance clean up the eating place or take the trash out of the floor, or something like that. So this kind of practice of letting employees understand that they have to handle other responsibilities is the challenges that we do have, but we are working on them every day” (Interviewee, Adora).

“We have our structures for training, we train employees in Finland which we adopt here, but we need to check the materials for training because here, the mentality is different. People coming to the retail sector often don’t know anything about retail here, so you need to really start from the basics. For example, how we sell fresh fruits and meat and other goods. And let us say that efficiency is important and we work with technology. We prefer to invest in training and technology to minimise the amount of people we need” (Interviewee, Palela).

“If we have managers from outside, then it is really long process how we will train them to understand our values and they would have to visit Finland for training. So that is one of the big challenges here in Russia” (Interviewee, Adora).

“Management practices differ in Russian-owned companies. However as we are an international company we implement international approaches to leadership and management and do it in line with our organizational culture” (Interviewee, Zomaya).

“One of our core values also is commitment, respect for our people, and we are making a lot of efforts to make people cooperate in the company, and one good example of that is people have been working in our company for many years, most of them for ten to fifteen years quite a long time and making provisions and propositions in our company. We have social responsibility as our core values. We are responsible for what we are doing in all areas. We make all our processes operate in most efficient ways in the stores, and in all the departments, we try to make everything efficient. For example, in the stores, we don’t have quite a lot of staff. We have about seven or eight people working in the stores but they take care

of all the processes, and we are trying to make our stores efficient using people who committed the organization” (Interviewee, Zomaya).

“We try and have succeeded in implementing high customer orientation in the whole organisation because if you lose the customer, then you lose the business. It is very nice to talk about processes and some slide shows and PowerPoint but if you don’t know who your customers or if you don’t have anything to sell to them, then you would have an empty shop. You need to understand your customers and they don’t care about your processes or your slide shows. Customers care about the goods in the store at the right time and at the right price. So the store has to be clean, tidy, and nice. So in our opinion the managers of the store need to spend more time in the store, and they need to understand the customer. Process charts are good for analysis but it is not their [managers] job to spend time on those issues. The manager’s job is to see that the store is running well” (Interviewee, Palela).

“We realized that it is not possible to promise to pay 5% more than the average salary to make many staff willing to stay. The salary issue is one but let us say in retail we have 600 people working in our department store, if we increase the salary level by 20%, you can image what will happen to the profit margin. I do believe one thing is that we have to be competitive at the salary level, but the other thing is the values that employees share, such as the stableness of the work environment, regular payment of salaries and assurance that salaries will be paid on the due pay days as agreed. Thus, our image as a reliable employer is important. These are the values that we promote during the recruitment process and we are discussing what are the values of the employee and the values of the company and both should be pretty much equal” (Interviewee, Adora).

“Efficient internal processes are copied to the whole chain in Russia. We try to build very good employer image and all our salaries are legal, and there is nothing under the table, which is not exceptional in Russia. We promote the following benefits to local residents: a secure workplace which plays fair, good training and career advancement opportunities and competitive pay” (Interviewee, Palela).

“There are a lot of small and larger decisions involved in the daily management of the department store. The core values steer decision-making and we discuss them a lot. They are also emphasised in recruitment. “The members of staff in managerial positions are very committed. They value the opportunity they have to develop together with the company. Our members of staff are genuinely proud of the fact that we are a flagship department store in Russia. We work hard every day to ensure that we live up to company’s vision of being the best department store chain in Europe” (Director, ADORA Annual Report 2012:15).

The finding from the interview data indicate that Adora, Zomaya and Pelela use training and leadership-by-example, transfer of core values, and image as a mechanism to cultivate organisation's cultural values into Russian managers and employees. Since, the Russian management style is incompatible with the firms' corporate culture and organisational values, Adora, Zomaya and Palela used training and expatriates from the corporate headquarters as a mechanism for cultivating the organisation's cultural values into Russian managers and employees. Adora, Zomaya and Palela sent expatriate from the headquarters in Helsinki to work with Russian managers at the initial stages of opening its stores. Thus, Finnish managers provided leadership-by-example as means of teaching and changing the mentality of Russian managers and employees to understand the company's values and the way things are done in the organisation.

Russian managers were also sent to the parent headquarters in Helsinki for on-the-job training and orientation as means of developing understanding of the organisation's operation processes and cultural values. Despite the significant influence of cultural values and institutions on Russian managers and employee attitude and behaviours, Adora, Zomaya, and Palela still need to transfer into the Russian market, those human resource (HR) practices and organisational values of the parent company that provide them competitive advantage (Gomez & Sanchez 2005). This is contrary to the traditional notion of conforming to HR practices of the host country. Thus, this finding is in support of (Fey & Shekshnia 2012; Gomez 2004; Gomez & Sanchez 2005; Koveshnikov et al. 2012; Michailova 2002) who show that there are culturally sensitive ways of implementing Western style management and HR practices in Russia. Accordingly, the Russian subsidiary management practices reflect interplay between the host country and its values and the retailers' strategic use of common practices. This finding suggests that subsidiaries of Finnish retailers in Russia can build Western style of management and employee empowerment into Russian "psyche" through training.

Research on Russian management has indicated that managers see training as an important means of competence development and source of competitive advantage in general (Fey & Bjökman 2001; Fey Pontus & Bjorkman 1999; Shekshnia 1998). This finding is consistent with (Michailova 2002: 186) who showed that "Western managers and expatriates are able to break previously installed patterns of thinking and behaviour in Russian organisations, although only slowly and with difficulty." This is a process of unlearning the old Soviet style of management and learning the new Western style of management. This process may take time, hence, a lot of patience is required on the part of Western managers and expatriates. As Michailova (2002: 186) noted, "better solutions and new



meanings are more difficult to emerge and management practices rooted in completely different principles and structures, such as participation, empowerment, and self-initiatives, are difficult to instil in employees that struggle with two clusters of basic dilemmas: “what is” vs. “what was” and “what is” vs. “what needs to be.”

*Long-term resource commitment* – A possible risk to overall profitability in international retailing is uncertainty of the host environment. In the context of Russia, this is manifested in the unstable regulatory environment, bureaucracy, political, and lack of transparency and enforceability of the legal system. International retailers weigh many risks in the host business environment before committing resources. When foreign markets are seen as providing favourable opportunities for growth, retailers tend to rely on long-term strategy and as a result, commit a high level of resources to fully exploit the conditions (Lu et al. 2011). Achieving expected growth in the foreign market however, depends on the firms resources. According to resource-based theory, international expansion is contingent on a firm’s portfolio of available resources. One of the arguments for growth of a firm is that it has unused resource after investing the resources needed to maintain its current level of activity. Penrose (1959) maintained that growth opportunities exist in the firm because there are always surplus productive resources. The availability of a financial resource surplus will make the firm more likely to pursue growth strategies involving greater resource commitment (Chatterjee & Wernerfelt 1991). Chatterjee and Singh (1999) and Quer, Claver and Andreu (2007) have the same view when they referred to internal financial funds, which include liquid money and the unused debt capacity.

Extending this reasoning to retail foreign direct investment involves more financial resources commitment, which in turn puts severe pressure on the firm to meet expected profit growth. Accessing new markets particularly, the high risk and high turbulent markets such as Russia requires decision about how to achieve growth. Retailers require large capital investment in real estate, store networks, human resources, information technology and marketing and short history often work with losses rather than profits in the initial stages of operation in a new market. Thus, long-term commitment of resources is required to develop the new market. This is reflected in the following quotes:

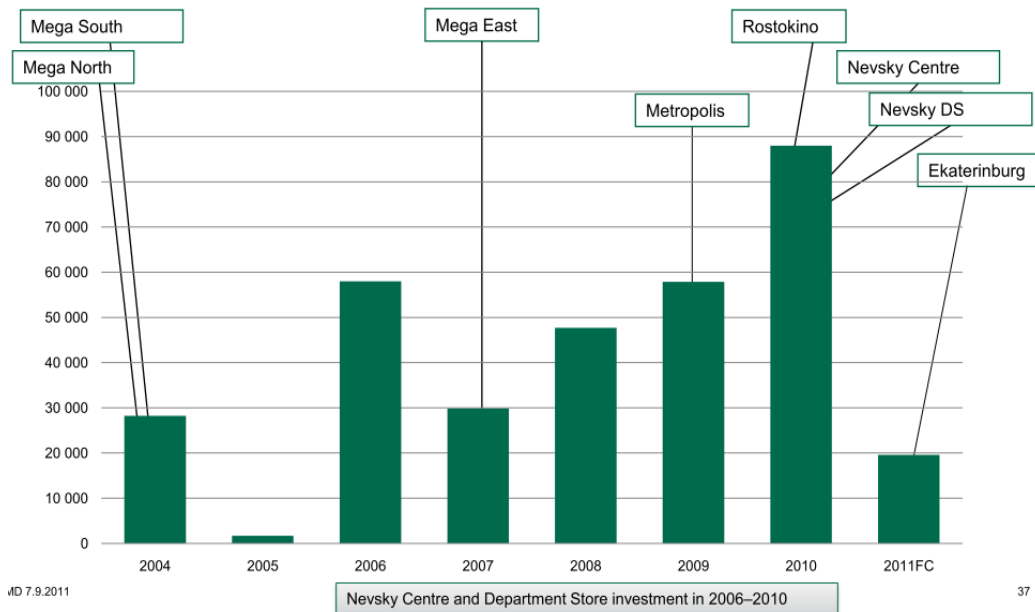
“What have we learned in this journey starting from late 1980s? In Russia we have learned that you should be patient and have long-term perspective. There are higher ups and downs here in this market. You should be prepared for different kinds of problems. The environment here is different as compared to western countries. Things change very often, you have to be patient and prepared to take even losses at the beginning to imple-

ment your concept here in Russia, then you can be successful. And one more point is that you are not having any quick wins here. In the 1990s, it is possible to have quick wins in Russia but not anymore, every brand has been here, or is already here, so there is nothing like quick wins anymore. You have to be patient and implement your concepts, and there is a lot of competition nowadays” (Interviewee, Adora).

RESEARCHER: Talking about patient, I know that sometimes, companies are under pressure from shareholders to increase earnings so when your company was taking losses at the beginning, what was the feeling of shareholders?

INTERVIEWEE: “I might be the wrong person to comment on that, but I suppose that our board of directors were wise enough in the early stages not to have all the ‘eggs in one basket’. In the sense that we have strong fashion chain named Lindex which is operating in Sweden and Norway and we have strong department store in Finland and Baltic States. While we were trying to have future growth in Russia, we are able to balance total profit (revenues from other operations) with events in Russia and then wait patiently for the investment to grow. This structure/strategy made it possible and now we are at the moment, if you have read the latest news or annual report that we are now highly profitable in Russia and made the highest growth last year [2012], so it was worth being patient and waiting a while” (Interviewee, Adora).

To be successful in the Russian market requires that retailers undertake long-term commitment to the market, and are prepared to sustain period of negative performance on entry. Adora is the largest department store in the Nordic countries and among the five largest department stores in Europe. Adora and Zomaya are well capitalised and therefore able to commit significant financial resources that support long-term growth through the establishing a wholly owned subsidiary in Russia. For example, Adora’s total investment in its Flagship department store in St. Petersburg is approximately €185 million. The total floor space of the store is 98 000 m<sup>2</sup>, and a retail space of 50 000 m<sup>2</sup>. It is Russia’s largest department store with a retail space of 20 000 m<sup>2</sup>. Zomaya opened four new stores in 2012: two in Finland, one in Russia and one in Estonia. In addition 13 unprofitable stores were closed down. Zomaya is still the fashion chain with the widest store coverage in Finland with stores in almost 90 municipalities. In Russia, Zomaya has a total of 46 stores in 16 different cities. Accordingly, with their high level of financial capacity, Adora, Zomaya, and Palela were able to select a higher control entry mode of WOS in entering the Russian market. For example, the investment and openings of Adora’s department store Russia is shown in Figure 12.



Source: Adora, Company PowerPoint Presentation 2011

**Figure 12.** Adora, Department store division Russia investments and openings

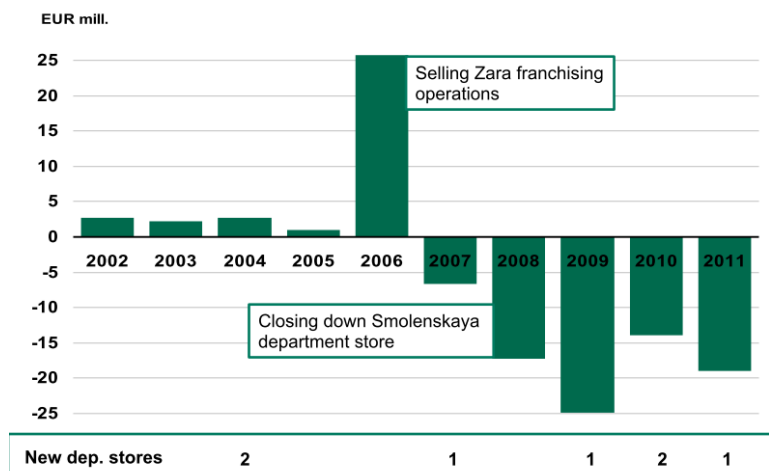
The importance of firm's resource availability international expansion has been emphasised in previous marketing and export studies (Cavusgil & Zou 1994; Johanson & Vahle 1977; Reid 1981) and in international retail expansion (Evans et al. 2000; Vida & Fairhurst 1998). For example, a department store and grocery retailer's international expansion involves a series of procedures and associated costs such as real estate investments, local retail talent training, volume buying and marketing activities, information technology and logistics investments. For instance, the majority of costs associated with operating a department store or a retail chain come from real estate and personnel. Real estate costs in Russia remain relatively stable and thus not depending on revenue. However, personnel costs vary, but not to the extent that it covers revenue differences. And new store's operating hours are just the same as in the old stores. Furthermore, to enter a new city or even a new part of a city requires extensive marketing support in the beginning.

In addition, to depreciate a major department store or large retail store investment takes a long period of time, and depreciation start to diminish significantly only after the first five years. Therefore, large financial resource commitment is needed to sustain period of negative returns. Annual revenue development for a new retail store during the first 3–5 years is normally large. However, it takes even more time to reach the full potential location and square metres. Gross margin

development is directly related to revenue development, and it takes a few years to break-even. Revenue generation of a new retail store depends on a number of factors. First, majority of product is bought in advance, therefore the first sale campaigns tend to be substantial, as there is no prior experience on allocated items and quantities or even store brands in the newly opened store. Allocation may improve only during the second and third year after some experience has been gained.

Second, food need to be fresh every day, therefore, losses are normally large during the start-up phase until demand and supply meet. Third, fashion is bought in advance, thus, the retailer need experience to get the best out of brands, square metres, campaigns, collections and offer customers the product they need. Fourth, majority of sales come from loyal customers, however, building the customer base from zero to full potential can take several years. Fifth, new location, new brand, and new customer – it takes time to gain recognition especially in new markets such as Russia and to become a preferred store to shop. Finally, new sales team, especially in Russia where retail talent is scarce takes time to train. For example “a year ago the 270 sales associates in Ekaterinburg department store in Russia had no idea of what the company is. Now they are 110% committed to offering visitors the company’s customer service” (Adora, PowerPoint Presentation 2011). A reflection of Adora’s ability to sustain a period of negative returns during the development of its Russian operation is reflected in Figure 13 and 14.

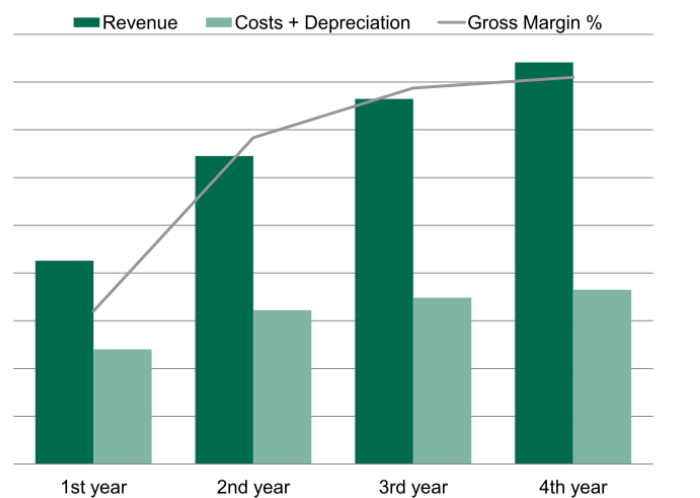
Development of the operating profit in Russia



Source: Adora, Company PowerPoint Presentation, 2011

**Figure 13.** Adora, Development of the operating profit in Russia

### Typical development after opening



Source: Adora Company PowerPoint Presentation, 2011

**Figure 14.** Typical development of profit after opening

Long-term resource commitment to the new foreign operations means that the company and its stakeholders patient enough, and are prepared to suffer significant losses before the foreign venture eventually turned round to make profit. It has been argued that larger firms, particularly in reference to financial resources, have more chance of performing well in international markets because they can commit more resources and absorb greater financial risk (Agarwal, 1994). The ability to sustain period of negative returns can also be related to ownership (Evans et al., 2000). An example of the losses that Adora sustained at the initial phase of its operations in Russia's market is reflected in the following extracts from The Moscow Times Newspaper.

“Finnish retailer [Adora] reported Friday that its operational nine-month operational losses in Russia reached 25.4 million euros (\$38.1 million), up from 21 million euros for the same period a year earlier. Sales in Russia for the period through September fell 21 percent.” (The Moscow Times, 26 October, 2009)

“HELSINKI – Finnish department store group [ADORA] reported Thursday a fall in second-quarter profits, dented by losses in Russia, sending its shares down.” (The Moscow Times, 10 August 2007).

Similarly, Palela, being the largest grocery retailer in Finland, and whose parent [TONIKO] is ranked 82<sup>nd</sup> on Deloitte's 2013 list of Top 250 Global Retailers is able to commit financial resources for setting up a wholly owned subsidiary

(WOS) in Russia. At the same time, the company's financial commitment was consistent with its determination to establish a long-term presence in the Russian market. In 2012, Palela opened five new stores in St. Petersburg and two in Riga. In addition, Palela opened a logistics centre in St. Petersburg. In all, Palela has 14 stores in Russia, eight in Estonia, five in Latvia and three in Lithuania at the end of the year 2012. The pace of Palela's international expansion is fast, and Palela is not planning to put the brakes on the expansion. For example, in St. Petersburg, Palela plans to have approximately 30 stores. Thus, only the halfway mark has been reached so far (TONIKO Annual Report 2012:32). This also suggests that to be successful in an emerging market such as Russia, retailers should have long-term commitment to the market. A reflection of Palela's commitment of resources for long-term growth in international expansion is reflected in the following statement.

“Thus far, investments in neighbouring countries [Russian and Baltic Countries] have been funded by loans issued by the Group [Parent Company] to its foreign subsidiaries. When subsidiaries in the neighbouring countries have grown their network sufficiently, new investments can be funded by their own flow of income. This is almost happening now, since the total cash flow has turned positive. In Estonia, where TONIKO Group has been in the market for more than a decade, operations are now profitable. The latest Palela investments in Estonia were made without parent's funding. After the initial investments and start-up phase, foreign units will generate a considerable positive result and thus improve the competitiveness of the entire Group” (TONIKO Annual Report 2012).

*The evidence from the interview data indicates that subsidiaries of Finnish multinational retailers adopt a long-term resource commitment strategy geared towards long-term presence and growth in the Russian market. This finding is consistent with previous researches (Evans et al. 2000; Chan et al. 2011; Lu, Karpova & Fiore 2011; Vida & Fairhurst 1998) which asserted that high level of financial capacity enables firms to adopt high control mode and long-term presence in the foreign market. The finding is also in line with Marinov and Morinova (1999) who found that investment environments in transition economies of Central and Eastern Europe are suitable for long-term strategic investments. The finding also supports Vida & Fairhurst's (1998) assertion that the ultimate outcome of each stage of the expansion process will have an effect on performance as the level of resources committed will tend to increase if the initial involvement produces positive results. In addition, Vida, Reardon, & Fairhurst (2000) also suggest that larger firms are more likely to have resource to fund their international operations, and can typically absorb a longer period of low return on investment than smaller firms (Evans et al. 2000). According to Evans et al. (2000), since publicly listed*

companies are answerable to shareholders, they face greater pressure to produce acceptable returns on investment over shorter period of time than do private companies (White 1995).

The finding of this study is, however, contrary to Evans et al. (2000: 385) assertion that “publicly listed companies face greater pressure from shareholders to provide acceptable returns on investment over a shorter period of time than do private companies” and thus; not prepared to withstand losses for a long time in the foreign market. The finding of the study show that publicly listed Finnish retailers have the ability to focus more on the achievement of long-term return rather than short-term returns. The evidence show that the board members of Adora, Zomaya and Palela have clear understanding how to use surplus funds from other operations to sustain negative returns at initial stages of operation in the Russian market until the firm become profitable. This can be considered a unique characteristic of Finnish retailers behaviour towards management of risks associated with investment in uncertain business environment and overall long-term profitability. This is in support of Chan et al. (2011: 1015) who stated that “retailers should expect to earn a positive return on each investment in a long period of time after the investment. Increases in return on investment (ROI) will only shows in the long run, instead of a year-on-year return rates.”

*Centralisation of distribution/logistics* – Centralisation is one the structural components of an organisation. It denotes the division of the decision-making authority between headquarters and the branches/subsidiaries of a multinational corporation (Quester & Conduit, 1996). According to Quester and Conduit (1996: 402) “centralisation is not an end in itself, it simply allows the organisation to mobilise its resources in order to reach its objectives.” Even though these objectives are many, the primary aim is either to maximise profits or to maximise risk (Prechel 1994; Bolton & Dewatripont 1994: cited in Quester & Conduit 1996). According to Quester and Conduit (1996), centralisation is often undertaken to maximise risk. Consequently, there are three element of risk that are important in the headquarters-subsidiary relationship and have varying impact on the degree of centralisation (Garnier 1982; cited in Quester & Conduit 1996). These risk factors include: (1) the more dependent a parent company on its foreign operations, the greater the risk to the parent company and the stronger the need to centralise all decisions; (2) the greater the degree of foreignness of the host country environment, the bigger the risk of misinterpreting information from customers and suppliers and so forth at the headquarters, and thus the greater the need to delegate decision-making to the executives within the subsidiary; (3) the greater uncertainty and unpredictability of changes in the subsidiary’s environment, the more im-

portant it is that they respond quickly and that decisions be made at the subsidiary level (Quester & Conduit 1996).

The risk factors in the Russian business environment include: lack of wholesalers, undeveloped retail infrastructure, undeveloped state of business systems, customs control risks, unstable regulatory environment and bureaucracy as identified in the interview data in the previous section. Centralisation of logistics systems by Adora, Zomaya and Palela helped to overcome these risks. Centralisation of decision-making provides the benefits of resources to be pooled and synergy among operations to be achieved and, if a relationship exists between standardisation and centralisation, other benefits from standardisation are more likely (Quester & Conduit 1996). Factors influencing centralisation include: integration of activities of members within the group, management culture, corporate structure, and policy or legal dependence (Quester & Conduit 1996). Salmon and Tordjman (1989) noted that logistics play an important role in the global strategy of international retailers.

The interview data indicate that the distribution system in Russia is very challenging. This is due to the inefficiency caused by fragmentation and decentralisation of the distribution system. In addition, working with large number of distributors generates complexity within the distribution system. One explanation behind this is that warehouses are highly specialised. There are also problems associated with small suppliers due to lack of technology and developed product flow system. Adora, Zomaya and Palela all have decided to construct own warehouse and distribution hubs in Russia to make the distribution system more efficient and ensure product quality and meet agreed delivery time. Adora and Zomaya have a warehouse and logistics centre in Moscow.

Likewise, Palela uses the services of Inex Partners Oy, a Finnish Logistics company be responsible for sourcing and delivering goods to its stores in St. Petersburg. In 2012, Palela opened a new logistic centre St. Petersburg. In 2012, the parent of Palela acquired the logistics company, Inex Partners Oy in order to take control of the sourcing and availability management operations of procurement and logistics. For example, the following statement is made in the annual report of the parent company Palela [...] “Effective procurement and logistics are the cornerstones of the Group’s competitiveness. Maintaining competitiveness also requires continuous renewal, and sometimes also sizeable investments.” (TONIKO Annual Report 2012: 36). The parent company of Palela reorganised the procurement operations of the grocery trade and consumer goods trade in the spring of 2012. In line with this reorganisation, the parent company of Palela took over the sourcing and availability management operations of procurement and logistics



by acquiring Inex Partners Oy. The reorganisation aims to further clarify the division of work and improve response times. The reorganisation also makes it possible to manage wide assortment procurement as one unit. This is reflected in the following comment [...]“the main aim is to maintain the competitiveness of the business and area and safeguard operating prerequisites in the future by focusing on providing and developing warehousing and transportation services,” (TONIKO, Annual Report, 2012: 36). As a result of the undeveloped nature of the distribution channel and fragmentation of suppliers, and lack of warehouses in Russia, Finnish retailers decided to take control of the distribution system by creating building their own warehouse and centralising logistics systems. This is reflected in the following quotes:

RESEARCHER: How do you get products to your stores in Russia?

INTERVIEWEE: “In Finland, there is Inex Partners Oy which works with our group and they make all the contracts with suppliers and the only thing that the store has to do is receive the goods from Inex. We have our own import from Inex Partners in Finland. We have 450 suppliers, and Inex Partners is one of them and the rest 444 are Russian suppliers. The goods from Finland are supplied by Inex Partners Oy and the export is realised through Inex Export” (Interviewee, Palela).

“We have centralised delivery through Inex. We have strict control. It has been a political decision, and it is very difficult to manage hundreds of import contracts so we decided to have everything going through Inex. We have other products coming through Inex other than Finnish products. We have some margarine coming from Spain. For every product group there are list of requirements that have to be fulfilled. If the supplier satisfies this requirement, then we can import goods from them” (Interviewee, Palela).

“We are trying to construct or operate a terminal at the moment. It is an on-going project at the moment.. We need the right rental price, right location, right square metres and we don’t have the right calculations yet because our operations are very small. We need to make our own analysis how it would be in two to three years and we hope to get it right and get it started because by the end of the year [2012] we would have more new stores. There would be more suppliers then and shelf availability would become vulnerable and it is not possible to have goods delivered at the backdoor anymore” (Interviewee, Palela).

“All our products come to Russia from Finland. After customs clearance they are transported either directly to our stores or to our warehouses in Moscow or St. Petersburg” (Interviewee, Palela).

“ We get the products to our stores in Russia by ourselves. So the chain is that we are buying the goods in Finland and we deliver them via Finland and taking care of the customs by ourselves. In other words, we do import the goods ourselves, and then deliver them to the central warehouse in Russia, and then deliver to the department stores. Most of our products are imported. We have centralised buying organisation that take care of the buying for the Finnish market, Russian market and the Baltic markets as well. This is our basic logistic structure, how the goods are moving here in Russia. And then we do have some exceptions. For example, in food, we have local buying here to take care of the fresh products which we are not importing from Finland. But basically, the suppliers are exactly the same as in Finland and we take care of the importing and customs operations by ourselves” (Interviewee, Adora).

Creating a completely own warehouse and distribution centre from the scratch is highly expensive and increased the risks involved in the foreign market considerably. On the other hand, it maximises the retailers’ control over the distribution chain and eliminates potential risks of product quality and stock outs. Creating own warehouse and distribution centre requires that the retailer has the financial resources to make the necessary investment and obtain large sales volumes for the investment to be profitable. The need for Adora, Zomaya and Palela to create a completely own centralise warehouse and logistics system is due to the fact that currently, these services are limited and available mainly in Moscow and St. Petersburg. Moreover, the manner of using the distribution centre differs among retail chains. Some retailers aim to move all products through a central warehouse. This improves efficiency in delivery planning and control of product flow to stores.

This finding is consistent with the study by Lorentz and Luonela (2011: 692) who show that undeveloped state supply chain in Russia compelled subsidiaries of Finnish retailers to take direct control over the management of logistics (a preference for in-house arrangements), the use of distribution centres and flexible delivery scheduling. Another reason is that by keeping minimum stock, retailers can protect themselves against unexpected price changes or temporary shortage of supply. However, it is typical to have certain products delivered direct to the retailers’ store despite having own distribution centre. This is normally the case with perishable goods such as vegetable and fresh fish. The evidence from the interview data indicate that the underdevelopment of the distribution channel propelled Finnish retailers to centralised distribution and logistics system by building their own warehouses and distribution centres in Moscow and St. Petersburg. This finding is consistent with Luo et al. (2001) who concluded that logistics practices are dependent on the context and more specifically, on culture, the economic system and infrastructure in a particular country. This result is also consistent with

Quester and Conduit (1996: 411) who found that distribution-related variables tend to be centralised possibly to adjust to the differences in market characteristics.

#### 6.4.3 *Creation- Cognitive environment pressures*

Regarding cognitive creation, the theme: *relevant retail format/concept* emerged from the interview data to characterise cognitive pressures subsidiaries of Finnish retailer face in Russia's market. Cognitive creation here refers to creating new retail format/concept that did not exist in the Russian market. After selecting a market to enter, retail format choice is an important entry decision. Retailers see their operating format/concepts an important reason to expand into foreign markets (Alexander 1990). Retail formats/concepts embody a bundle of a retailer capabilities and retail mix to distribute products to meet the needs of target customer groups (Golman 2001). Vida, Reardon, and Fairhurst (2000) view retail concept as representing the overall retail brand image, retail facilities, and services offered. Innovative retail formats/concepts, with international appeal can be the foundation for competitive advantage (Burt 1991). Vida et al. (2000) found that unique retail formats/concepts provide competitive advantage and offer leverage to international market growth.

During the Soviet era, at the most developed markets, open-air market places and halls for vegetables and fresh food can be considered as remnants of traditional retail. During the Soviet era, typical retail outlets were either service and self-service supermarkets and specialised outlets (Lorentz & Lounela 2011). The retail sector has developed in major cities i.e. Moscow and St. Petersburg during the last 15 years, and at the same time at the early stages of development in smaller cities. Small independent food shops, kiosks, and open air markets still dominate half of the market. Due to underdeveloped retail infrastructure in Russia, Finnish retailers pursue the path of organic growth by creating or building new retail formats/concepts in Russia based on the home country formats/concepts. Adora, Zomaya and Palela all build their retail stores from the scratch in the Russian market. Russian consumers often visit Finland to shop at Adora, Zomaya and Palela's stores, thus, are familiar with the retail format/concepts of Adora, Zomaya and Palela.

Regarding Adora, there is no international department store at all in Russia at the time of market entry. Therefore, building a new retail concept in the form of international department store fills the gap in the market. Creating the only international department store in Russia therefore provides Adora unique competitive advantage in the Russia's market. At the time of writing this dissertation, Adora is

till the only international department store in Russia. Adora created a unique retail concept in the form of international department store devoted by overall retail brand image and facilities. Total investment in Adora's St. Petersburg department store was approximately €185 million. Total floor space is 98 000 m<sup>2</sup>, and with retail space of 50 000 m<sup>2</sup>. The St. Petersburg department store of Adora is Russia's largest department store with 20 000 m<sup>2</sup> of retail space. The new department store retail concept is designed to offer one-stop shopping experience with excellent quality and competitive prices for a wide customer group. Product selection includes fashion, cosmetics, home decoration, consumer electronics, sports, books, stationary and food. Additional services offered to complement the product selection include underground parking in 3 levels for 560 cars, two food courts, baby care facilities, ATM, and Taxi pole etc. In all, Adora has seven department stores in Russia, one in St. Petersburg and six Moscow.

Palela on the other hand found a gap in the food retail market regarding the Russian middle-class who wants something different in the form of wide and deep product assortment and quality products. Palela found that Russian consumers like the firm's product assortment in Finland, but there was no retailer in the Russian market that offers such products. Therefore, based on the familiarity of the firm's products and retail format with Russian consumers Palela decided to enter the Russian market by building new stores from scratch. Palela entered the Russian market through organic growth, i.e. wholly owned subsidiary by building its stores from scratch. Palela entered the Russian market with two retail formats/concepts i.e., supermarket and hypermarket concepts. These concepts were based on the home market concept which was transferred into the Russian market. In total, Palela has 14 stores in Russia, five hypermarkets and nine supermarkets in St. Petersburg. Palela plans to have 30 stores in Russia. The creation of new retail concept is reflected in the following quotes:

“To be honest with you, currently, in the total retail market here in Russia, there are not any international department store chain here in Russia except our stores. There are lots of retailers, and there are lots of shopping mall carrying different brands, but not department store like Stockman in Russia. It is like our customers appreciate that they can purchase everything under the same roof so to say and different brands” (Interviewee, Adora).

“The first store was open in June 2008. We started operation from zero in April 2008, and basically set up the management team; we certificate the products, got the custom clearance, government permission, job listings and personnel, set up purchasing and got 3300 contracts. We have to work twelve hours, seven days a week for three months. So it was double work but you really need to work. Today we have 14 stores open, nine of them

are supermarkets and five of them are hypermarkets. Bringing a new brand to a new market as it is, we decided to use two formats but use only one brand name, so both the supermarket and the hypermarket operate under one brand name. We were needed in the market, in other words, I think Russian consumers are in need of the product that our store offer in the Russian market. There are lot of low quality stores and hypermarkets so the middle range is missing, and there is not much on offer for the middle class clients/customers. St. Petersburg is logistically very challenging city, so we want to offer convenient way of shopping and high quality goods” (Interviewee, Palela).

“We are constantly developing our store concept and its infrastructural effects. For every project we try to develop something new so that our concept stays fresh and interesting. We often have questionnaires from store design department who ask our sales department how we can sell products in this environment, what type of furniture we need and what we can remove, and the view of the store and storefront display is taken into consideration. We have big cubes where we place different products, and we have frames where we place pictures with the age of people for whom the products are meant for. We have changed the colour of our store environment from white to black, and it is an environment for all our target groups. The store concept supports our wide range of products, and it is easier to display products with the black walls” (Interviewee, Zomaya).

Evidence from the interview data indicates that lack of modern retail concepts and gaps in the market regarding unmet target consumer segments created opportunity for Adora, Zomaya and Palela to enter the Russian market through organic growth; and also to transfer retail format/concepts developed from the home market, Finland, to the Russian market. This finding is consistent with previous research (Evans et al. 2000; Park et al. 2008) which showed that retail format influence the market entry strategy adopted. Likewise, this finding is in support of Dawson’s (1993) suggestion that a strong premium specialist retail format may result in organic growth or tightly controlled franchising. By utilising clear or unique concepts, subsidiaries of Finnish multinational retailer in Russia can differentiate themselves from competitors (Park & Sternquist 2008). According to (Park & Sternquist 2008), the retailer having a unique capability is able to distinctively produce its concept, which also allows for differentiation from competitors.

#### 6.4.4 *Creation strategies in response to cognitive environment*

The theme that characterise strategic responses to the cognitive environment is *adaptation of retail format/concept*. The interview data suggests that subsidiaries of Finnish multinational retailers in Russia adopt a strategy of *adaptation* to respond to cognitive pressures of *relevant retail format/concept*. Considering the

firm's resources and capabilities in relation to the dynamic host environment, the international retailer must decide to what degree its retail format/concept will be standardised or adapted. The degree of standardisation or adaptation refers to elements of the retail offer (Evans et al. 2008). Salmon and Tordjman (1989) view a standardised or "global" strategy as the duplication of a single store concept across markets. While this may entail some small form of adaptation, product, store design, price, promotion, and service are the same for all stores in foreign markets.

According to Salmon and Tordjman (1989), an adapted strategy may also have a consistent concept in all markets, however, variation in pricing, product, and promotion are more significant and are tailored to suit the specific condition of each foreign market. Subsidiaries of Finnish multinational retailers concentrate upon using retail marketing skills and expertise, utilising differential advantages resulting from large scale retailing, developing distinct business concept based on an internationally appealing and innovating offerings, and develop a strong retail brand. For instance, the business concept of Adora is a department stores offering one-stop shopping experience with excellent quality and competitive prices for a wide customer group. Product selection includes fashion, cosmetics, home decoration, consumer electronics, sports, books, stationary, food and additional services to complement the product selection. Adora also provides excellent customer service as a priority aimed at exceeding customer expectation. Adora, Zomaya and Pelela have powerful brand names, differential store formats/concepts, wide product range, prime real estates, strong and efficient infrastructure in terms of sourcing, distribution and logistics systems and flexible efficient management team which provide them competitive advantage over domestic chains. This therefore allows them to differentiate themselves from domestic chains by transferring their retail concepts to the Russian market in unchanged form. This is reflected in the following quotes:

RESEARCHER: Please can describe your retail format in Russia?

INTERVIEWEE: "Basically, the concept is exactly the same as in Finland, and the brands are the same. We have minor differences in few areas such brands that are common in Scandinavian countries like some Swedish brands that are not present here in Russia. And more premium brands such as Hugo Boss brand which has more shares and more space in our department store in Russia compared to Finland. But basically, the concept is still the same as in Finland. The fittings, the way we communicate, prices or guidance to customers, the way sales persons are dressed, the way store looks, the way our marketing looks, everything is exactly the same as in Finland and Baltic countries. Then of course only the food department which is different. We have local buying here and local suppliers

so that makes differences in food department. Not how it looks but differences in variety of products selections” (Interviewee, Adora).

“Layout of the stores such as visual concept is totally the same. And of course, we do have department stores both in Finland and the Baltic States which are not updated at the same time, so we have updated concepts, but let’s say that now we are changing the location of the Itakeskus department store and that will pretty much be the same concept like the department store in St. Petersburg. So we have the same concept in each market area, but it depends of course on when the department store is renovated later. But there is no difference between Russia and Finland; the fittings are exactly the same” (Interviewee, Adora).

“Basically, the shop design is still done in Finland. The main key issue in stores is planning the store layout and how much space to allocate to each product group. We have to twist it a little bit because Russia is not the same as St. Petersburg. In Finland our stores need 5000 product assortments; in Russia you need 33000 assortments. But apart from this, we make it by the concept as in Finland. The interior of the store is the same square metres as in Finland. The placement of equipment is the same, the efficiency requirements are the same, and basic vision are also the same as in Finland. The concept has to be consistent in order to be a reliable store and offer good price quality ratio. This is what we have taken for granted and we are like for the middle class” (Interviewee, Palela).

“Nearly all our stores look the same. The only difference is that most of the stores in Finland were opened with the old concept, black and blue design. But now they are being refurbished and they are all becoming black colour stores. In Russia, half of the store was open in the black design and we are refurbishing all our stores to be the same in black design. As all Zomaya stores belong to the Zomaya fashion chain, they don’t really differ from customer’s point of view and should be immediately recognisable, wherever the store is located. One difference could be in-store design concept, as it constantly evolves. Other difference is that we have to use more staff due to longer working hours and heavier administration work load on store staff” (Interviewee, Zomaya).

The evidence from the interview data indicates that Adora, Zomaya and Palela all standardise their retail format/concept in the Russian market. Adora transferred its department store concept to the Russian market with adaption in product assortments (e.g., brand volume, product categories, and food products) and floor space devoted fresh produce. Likewise, Zomaya transferred the same retail concept from Finland to the Russian market. However, changes are constantly being made to visual display environment to reflect all target groups. Similarly, Palela transferred its hypermarket and supermarket concepts to the Russian market with adaptation to product assortment.

The evidence from the interview data indicates that subsidiaries of Finnish multinational retailers standardise their retail formats/concepts in the Russian market. The elements of the retail concept that has been standardised include store décor, store layout, store display, communication, pricing technics (i.e., quality-price ration) and dress for sales persons. This is consistent with Salmon and Tordjman (1989) who suggested that for multinational retailers, the basic retail format/concept remains the same, but certain alterations are necessary to suit specific expectations in each market.

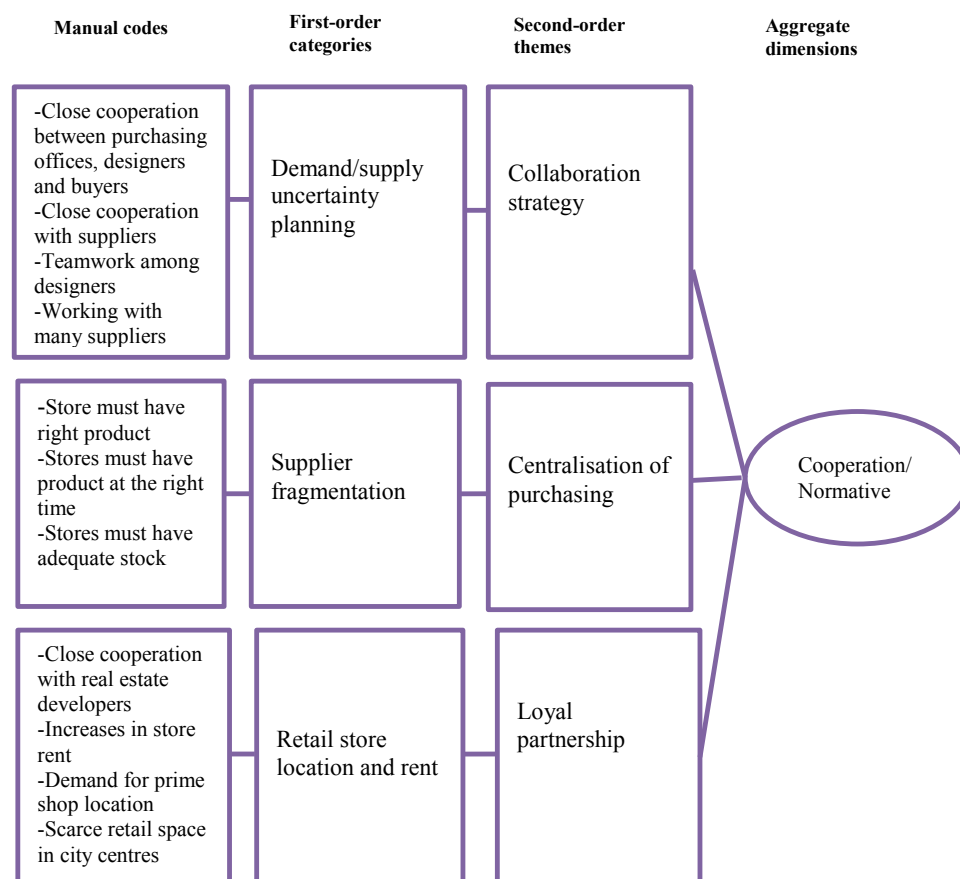
This finding is also in support of McGoldrick's (1998) assertion that elements of the retail offer that can be standardised include quality of display, store atmosphere, layout, level of services and facilities. Similarly, Vida (2000) stated that international retailers tend to replicate their domestic concepts in international markets and adopt a selling rather than a market orientation approach. Likewise, this finding is consistent with Tordjman (1994) who stated that traditionally, many retail formats/concepts are considered transferrable overseas in significantly unchanged form from the retailers' dominant formats in the home country.

## 6.5 Strategy 4 – Cooperation with environment

Anderson and Narus (1990: 45) defined *cooperation* “similar or commentary coordinated actions taken by firms in interdependent relationships to achieve mutual outcomes or singular outcomes with expected reciprocation over time.” International retailers are dependent on resource owners such as suppliers, manufactures, and landlords or real estate developers. The international retailer may therefore attempt to cooperate with resource owners or other well-established firms because a single company lacks the money, resources or capabilities to attain its goals and objectives. Under the circumstances, international retailers may seek cooperation with external parties such as manufacturers and suppliers within a given environment to achieve their goals (Child & Tsai 2005). Furthermore, due to the complex nature of retailing, particularly, managing demand uncertainty and production capacity availability with manufacturers requires many retailers to develop cooperation or partnership with supply chain partners, i.e., manufactures and suppliers. When a retailer and manufacturer or supplier decides to build a more collaborative supply chain, their main goal is to work together to create lasting value. Cooperation between retailers and supply chain partners allows the demand chain partners to know the end item demand and to make plans accordingly, with lower overheads because there is less bureaucracy and less need for it. In addition, as pioneers of the development of the retail sector in Russia, international retailers often cooperate with landlords and real estate developers in attempt to obtain



prime retail location, negotiate retail store size and terms of rental agreements. The interview data revealed four themes which characterise normative pressures experienced by subsidiaries of Finnish multinational retailers in cooperating with the environment namely: demand and supply uncertainty, supplier fragmentation, and retail store rent. In addition, the interview data suggests that subsidiaries of Finnish multinational retailers in cooperate with the normative environment by deploying four types of strategic response choices namely: Collaboration, centralisation of purchasing, and loyal partnership. Figure 16 shows the manual codes, categories and sub-categories and the themes that emerge from the interview data for cooperation strategy. The first-order categories show normative pressures from the institutional environment. The second-order categories show the specific strategies retailers employ in response to these pressures, and the aggregate dimensions show the strategic response choices retailers employ in response to normative and pressures from the institutional environment.



**Figure 15.** Examples of manual codes, first-order categories and second-order themes for cooperation strategy

### 6.5.1 *Cooperation - normative environment pressures*

Regarding normative cooperation, three major themes emerged from the interviews to characterise normative pressures Finnish retailer face in Russia. These three major themes are: *demand and supply uncertainty, supplier fragmentation and retail store rent.*

*Demand and supply uncertainty* – A major problem faced by retailers is balancing demand and supply. Estimating consumer demand can be problematic because some products such as fashion products change frequently; and some products are seasonal products. Moreover, retailers depend on suppliers and manufacturers for product availability. There are many factors that may affect the manufacturer's inability to supply the product needed by the retailer. For example, lack of finance, raw materials availability, workforce availability, and production capacity availability. In short, a major problem in supply chain is their limited visibility of actual demand (Christopher & Towill 2000). If demand supply plans are not matched, retailers need to either solve logistical problems with expensive ad hoc solutions or to mark-down oversupplied goods, both of which lead to decline in profit (Hubner, Kuhn & Sternbeck 2013). The major factor to retailer's success is to understand the consumer. Consumers are important element of the retail chain. However, the inability to have direct control of consumers by retailers influences supply chain planning (Hubner et al. 2013). Retailers have to anticipate consumer demand down the supply chain until the "moment of truth" (Hubner et al. 2013). Forecasting demand, sales planning and production capacity planning therefore becomes very important and problematic. Shared information between the retailer and supplier can improve demand forecasting and production planning. A reflection of how demand and supply uncertainty influence the operations of Finnish retailers is illustrated in the following quotes:

"There was steep increase in the price of cotton, an important raw material for the fashion companies in 2010-2011. In addition, the lack of production capacity resulted from the sudden price rise and the delays caused by the capacity shortfall had a bigger impact on the sector. "For this reason, close relations with garment suppliers are an important competitive advantage for us. They help us to ensure sufficient production capacity of high quality at all times." In addition to raw material prices and availability of capacity, such factors as changes in exchange rates also have impact on the profitability of the fashion chains" (Director of purchasing, in ADORA Annual Report 2012: 19–20).

"The uncertain market development creates challenges for the Group's fashion chains in 2013; especially the demand for women's and men's wear is closely related to consumer confidence and buying power. In both

fashion chains the focus will be strongly on improving the collections for women. An inspiring store atmosphere is also central in attracting more visitors to the stores. Close relations with good suppliers provide an important competitive advantage,” (Director of purchasing, in ADORA Annual Report 2012: 19).

“An essential part of improving profitability is the careful planning of buying, which will help to optimise the amount of bought merchandise and its allocation between countries and stores, is being taken into use at Zomaya. Based on Lindex’s good experiences, the optimised buying is estimated to boost Zomaya’s gross margin already in 2013” (ADORA Annual Report 2012: 19).

The evidence from the data indicates that demand and supply uncertainty impact on the operations of retailers. Several purchasing offices of the parent company of Adora and Zomaya are located in Asian countries. The purchasing offices are responsible for purchasing clothes for the fashion chains division of Adora and Zomaya. Adora which is a department store has a fashion division, and Zomaya’s business line is purely fashion. The central purchasing offices of both Adora and Zomaya are located close to the factories which make the clothes for the fashion chains. The purchasing offices work closely with about 569 factories operated by 250 goods suppliers located in Hong Kong, India, Bangladesh, Pakistan and Turkey. Being close to the factories enables the purchasing offices to know exactly what is going on in the factories, and also to address supply problems that may occur. Hubner et al (2013) noted that the main objective of retail is to close the gap between the point of production and the point of sale.

Collaboration has been seen as the formation of inter-firm linkages or partnerships in which the parties involved work together and share information, resources, and certain degrees of risk in order to attain common objectives (Bowersox et al. 2003; Golicic et al. 2003; cited in Min et al. 2005). Generally close relationships first develop across functional areas inside an organisation. Supply chain members create cross-organisational linkages because they have something to gain. Salmi (2006) also noted that personal relations played an important role in building and developing supplier relations between Chinese suppliers and Western companies. Furthermore, Mattsson & Salmi (2013:192) mentioned that “it is necessary to consider the personal interactions and personal networks in order to develop and handle cooperation in business exchange relationships”.

This finding is consistent with previous studies (Hubner et al. 2013) who stated that large retailer often need to deal with planning decisions for thousands of individual items and stores. Closely working together enables the retailer and supplier to create and capture mutual benefits from matching demand with supply.

For instance, Simatupang and Sridharan (2005) noted that in a make-to-stock supply chain, seamless information sharing allows the retailer and the supplier to create a demand driven supply chain that result in efficient use of production capacity, lowering of inventory levels, reduction of out of stocks, and better customer service. Furthermore, Fisher and Raman (2010: 127) note that “retailers have three tactics at their disposal for matching supply with demand: accurate forecasting, supply flexibility and inventory stockpiling.” Effective decisions enable the chain members to address product flow issues more quickly and thereby permit more agile demand planning to occur.

*Supplier/distribution channel fragmentation* – Suppliers to the food industry in Russia seem be quite fragmented and this causes inefficiency to retailers. Suppliers to the food industry in Russia include farmers, agricultural co-operatives and manufacturers (MarketLine 2013). Large retailers usually have relationship with large number of suppliers in order to ensure stability of supply and also avoid the danger of local sourcing problems or fluctuations (MarketLine 2013). Working with large number of small suppliers generates complexity within the distribution system. One explanation behind this is the limited number of suppliers who are highly specialised or niche players, and the importance of product quality or preparation type restrict the available range of sourcing. For example, one supplier offers fish, the other offer vegetables, and the third meat, or vodka. There is also problem pertaining particularly with small suppliers owing to lack of technology and developed product flow systems. Consequently, they have problems meeting agreed delivery time and providing high quality products. Furthermore, there is the problem of distribution costs, as deficiencies of the transportation infrastructure in Russia further impact on the price of the product.

In addition to sourcing products from suppliers in Russia, subsidiaries of Finnish multinational retailers also source products from several manufacturers/factories/suppliers located in Asia, particularly, clothing or fashion products. Prior to transition from planned to market economy, Russia like other communist countries, was shortage economy. Production and distribution of goods were planned and monitored by the central planning bureau. Priority was given to the production of those goods considered important or basic to the health and well-being of the larger population. Luxury goods were supposed to be produced using surplus capacity after the basic needs of the people have been fully met. The clothing manufacturing sector in Russia is till undeveloped, therefore Finnish retailers source the manufacture of clothes for the fashion chains to several manufactures/suppliers in Asia. Due to low cost of production in emerging economies, many retailers source the products they need for their stores to low cost production facilities in countries such as China, Bangladesh, Turkey, India, and Pakistan.

Adora and Zomaya operate fashion chains and has therefore centralised buying of fashion goods via the parent company in Finland. On the other hand, food products such fresh meat, fish, and vegetables are bought from local suppliers in Russia.

Palela also has non-food products which are supplied through centralised buying which is realised through the Finnish logistic company, Inex Partners Oy. Palela, Adora and Zomaya have central buying offices responsible for buying all goods including clothes for the fashion chains. All products for the stores of Adora and Zomya in Russia are delivered via Finland to warehouses in St. Petersburg and Moscow, and then distributed to other stores. Palela also has centralised buying system which is handled by Inex Partners Oy. Inex Partners Oy is responsible for purchasing, transportation, warehousing, customs documentation, labelling, and delivery of products to the stores of Palela in Russia. A reflection of the supplier/distribution channel fragmentation is reflected in the following quotes:

RESEARCHER: what are some of the problems you have encountered concerning the supply chain e.g. delivery on time?

RESEARCHER: “The main challenge is that there are no wholesalers, so you get lots of trucks at the back door, and lots of small companies. There are different kinds of suppliers and the suppliers handle the customs and labelling of the products to the point of delivery at the back door of our stores. If we talk about suppliers, here, they are not as reliable as let say in Finland. So you need suppliers for fresh food, fresh meat and you need small suppliers for everything. For example, there might be container delay and customers need some samples, so you we need to have many suppliers for fresh products in order to ensure product availability. So this means that the same product is coming from different suppliers. At the moment, we have 450 suppliers and the main reason for this is securing availability and the absence of real wholesale operations in Russia market. In Finland, there is Inex Partners Oy which works with our group and they make all the contracts with suppliers and the only thing that the store has to do is receive goods from Inex” (Interviewee, Palela).

“There are two major changes under way that will affect the operations of ADORA’s purchasing offices. First of all, there will be less dependence on China, as the country is becoming more expensive. ADORA is looking for new competitive production locations in Asia. Secondly, garment suppliers located closer to stores are becoming more important as this makes quick deliveries possible” (ADORA, Annual Report, 2012, p. 20).

“We order our products from the supplier, and suppliers transport the products to each store by their own trucks. The suppliers are Russian suppliers, but there are several suppliers and they must all have Russian legal entity even, if the owners are foreign units” (Interviewee, Palela).

“There are certain risks with the delivery time, but in real life at the moment, we are not having such problems with delivery time. The fact is that we have been doing this quite so long already that we know the critical parts of importing goods” (Interviewee, Adora).

“The major problems we have with suppliers are non-delivery, out of stock, and quality control” (Interviewee, Palela).

“Well there are several purchasing offices which buy the goods and we deliver them via Finland. We order the goods to Finland and then deliver them to Russia. And the suppliers are basically mostly the same as we are having in Finland” (Interviewee, Adora).

Even though the supply and distribution system is still quite fragmented in Russia, they are starting to look like those used in Western systems at least on the retail chain’s end of the distribution chain. Retailers with few shops tend to have wholesalers deliver the goods directly to the stores. As wholesalers are usually relatively small, and or have quite limited product categories, this system causes a lot of traffic at the backdoor or delivery area of the retailer.

The evidence from the interview data indicates that fragmentation of suppliers and distribution channel in Russia exerts pressure on the operations subsidiaries of Finnish multinational retailers in Russia. The fragmentation of the supplier/distribution channel compelled retailers to have large number of suppliers and to centralise buying in order to ensure smooth supply of products and timely delivery. This finding also supports the study of Roberts (2005) who showed that the supply chain in Russia tends to be highly fragmented and notoriously difficult to manage (Roberts 2005:53). Therefore, lack of large-scale wholesalers also means retailers are forced to rely on large number small suppliers in order to ensure product availability (Roberts

*Retail store rent* – Retailers need to invest capital into physical assets in markets simply to access them – namely, to sink capital in a store network and distribution and logistics infrastructure. Retailers are complexly connected to the real-estate and land-use planning system (Wrigley & Currah 2006). When market competition is strong in a foreign market, local resources such as retail space, prime location may become scarce (Lu et al. 2011) thus, pushing rental price high. The retail sector in Russia has experience strong double digit growth in recent years, and this is predicted to continue in the future. With the growing presence of international grocery and fashion brands, the competition in the Russian grocery and fashion retail areas has become intense. The arrival of more international retailers has created demand for retail space and as a result, pushed up rental price in St.

Petersburg and Moscow. The scarcity of prime retail store location has given landlords and retail mall developers the opportunity to demand high rent. The interview data show that store rent in St. Petersburg and Moscow and relations with landlords creates major problem for retailers. This is illustrated in the following quotes:

RESEARCHER: From the operational point of view, what are the major challenges faced by retailers in the Russian market?

INTERVIEWEE: “One of the difficulties is to get good rent price, because in Russia, the rent is quite a big issue. It is quite big that is why it is quite complicated to operate in this country” (Interviewee, Zomaya).

“The difficulties in constructing a new store is not about legislation regarding store size, but the question of negotiation with the landlord about rent and the premise size” (Interviewee, Adora).

“Each store’s profitability is an important success factor, as leasing costs are expected to remain high in all countries of operation” (ADORA Annual Report, 2012).

“The major issue in retail is finding the location and the rent and everything else is just normal. Another thing is you need to know what you want to do, you need to know the requirements of the parent company, the company structure, and then you need to listen to people who work with company structure” (Interviewee, Palela).

“I don’t know if any of you have heard the story about our first departmental store in Russia. This store was closed ten years later in 2008, since we had a little disagreement with the landlord about the rent agreement. The rental agreement from our point of view was quite good agreement. The market was growing quite faster and we had this long-term agreement. Basically, the landlord wanted more rent (rental increase) and what he did was just turn off the electricity in our department store. The case is still in the court but we were forced to close the store anyway. We don’t have the intention to open that store again. The location was quite good, right at the city centre of Moscow” (Interviewee, Adora).

“Good locations, when it came to St. Petersburg, all the shopping centres were just starting to be built so it was not difficult to find good location for our stores. And all our stores have better locations compared to our competitors who are now in the market. At the moment, it is much difficult to get good location because the rent is quite high” (Interviewee, Zomaya).

“International department store chain Adora closed its flagship Moscow location until further notice Tuesday, after the property’s landlord unex-

pectedly cut electricity as part of a worsening rental dispute, a Adora official said” (The Moscow Times, 14 May 2008).

“The flagship Moscow store of Finnish retailers Adora is under threat because of a legal dispute over its rental agreement” (The Moscow Times, 13 February 2008).

“Retailers have clearly defined their regional strategies. They have prioritised regional cities and decided on the optimal number of store in particular cities. As a result of such activity, high-quality regional shopping centres have a waiting list of tenants.” (The Moscow Times, 11 March 2013).

The evidence indicates that retail store rental price is high in Russia exerts pressure on the operations of subsidiaries of Finnish multinational retailers. The evidence indicate that retail store rental in Russia is high particularly in St. Petersburg and Moscow; where most of the modern retail development is taking place, and competition is fierce, and prime retail location is scarce. The concentration modern retail activity in St. Petersburg and Moscow therefore leads to scarcity in prime retail location, which in turn pushes the rent high. This finding is consistent with Lu et al. (2011) suggestion that when market competition is high in a fashion retail market, local resources such as retail apace may become scarce. This finding also supports the study by Coe and Lee (2006: 73) who stated that “one of the biggest barriers to foreign retailers’ entry into the South Korean market was the extremely high price of real estate assets and the rental system, which required retailers to pay upfront approximately 70 percent of a property’s value as rent-typically for a one-year lease.” Th finding is also consistent with Owen, Palmer and Zueva-Owens (2013: 889) who found that differing real estate/property market norms presented major concern to retailers during the initial development in the foreign markets.

### 6.5.2 *Cooperation strategies in response to normative environment*

The three themes that characterise strategic responses in cooperation with the normative environment are: *Collaboration strategy, centralisation of purchasing, and loyal partnership*. The interview data suggests that Finnish multinational retailers in Russia’s market adopt a strategy of *collaboration, centralisation, and loyal partnership* to respond to normative pressures of *demand and supply uncertainty, supplier fragmentation and retail store rent*.

*Collaboration strategy* – Due to inability to accurately forecast consumer demand and uncertainty in production capacity availability, retailers collaborates with supply chain partners. “Collaboration is defined as two or more companies shar-



ing the responsibility of exchanging common planning, management, execution, and performance measurement information” (Anthony 2000; cited in Min et al. 2005: 237). The common notion is that much can be achieved from collaborating with supply chain partners (Min et al. 2005). Collaboration has been referred to as the driving force behind effective supply chain management (e.g. Min et al. 2005). According to Barratt (2004: 33), it is vital to appreciate internally that collaboration is not just about closer relationships, or integrating processes between supply chain-related functions (e.g. purchasing, manufacturing, logistics) but also have to include: marketing-commercial (for promotions/new product service introduction).

In addition, collaboration is only about developing close information exchange based relationships at operational level of activity, but also needs to be implemented at tactical and strategic levels in the organisations across the supply chain (Barratt 2004). The key rationale behind collaboration is that a single company cannot successfully compete on by itself, as it does not possess all the resources needed to compete. Consumer demand is changing frequently, and competition is fierce. Therefore a number of retailers look for ways to coordinate cross- function and cross-firm activities and work reciprocally over to achieve superior performance. Collaborative planning of both supplier and retailer has effective influence on supply chain collaboration. Companies in the supply chain require collaborative planning to schedule production plans, manufacture products, and deliver them (Lyu, Ding & Chen 2010).

Good demand forecasting for the supplier and retailer plays important role in supply chain collaboration (Lyu et al. 2010). Adora and Zomaya are engaged in fashion retail thus there is cross-functional collaboration between designers, marketing, purchasing offices in planning various collections. Designers work as a team to come up with the various collections in collaboration with the production plants on the material to be used. This internal functional interdependence lays the foundation for functional interdependence extending into the partner firm. Designers and buyers become functionally interdependent and therefore, pursue reciprocally beneficial outcomes (Jap 2001; cited in Min et al. 2005). The outcome is an integration of intra and inter-firm activities. The aim of this interdependence is to obtain higher performance than would be achieved by working individually.

Collaboration is also seen as the process whereby collaborative partners work together towards a common goal that benefits the partnering firms (Min et al. 2005). In addition, collaborative supply chain involves “two or more independent companies that work jointly to plan and execute supply chain operations with

greater success than when acting in isolation” (Simatupang & Sridharan 2002: 19). Dahlstrom et al. (1996) and Barratt (2004) noted that one of the primary motives for working together through collaborative efforts is to gain operational and competitive advantages such as decreased cycle times, lower inventory and operating costs, and increased efficiencies in process activities. The buying offices of Adora and Zomaya is located in China, Hong Kong, India, Pakistan and Bangladesh, and work in collaboration with a network of about 250 goods suppliers who supply clothes for the fashion chains. Close ties with suppliers help the buying offices of Adora and Zomaya in planning of production and better use of local expertise. Adora and Zomaya collaborate with manufacturers and suppliers to plan production capacity availability, raw material, price, and delivery time. This is reflected in the following quotes.

“Transforming an idea into a commercial product may take up to a year, but sometimes the process only takes between six and eight weeks. Lindex and Zomaya have altogether about 50 fashion designers who study trends and sketch the first ideas. After the ideas have been put on paper, the product development staffs in the purchasing offices examine different materials and draw up a list of options suitable for the products. Therefore, the work of the designers is closely integrated with the production process from the start (Director of the purchasing offices” ADORA Annual Report 2012: 18).

“Regarding our new assortments- we are trying to develop the sales assortments, this is the reason why we have close communication with the product department, the sales department, and they often collect feedback from us about what our customers need” (Interviewee, Zomaya).

“Cooperation between designers and buyers is also important. Buyers determine the retail prices for the products and the size of the orders. It is then the task of the purchasing offices to make the production arrangements. “The purchasing office selects the factory, using such factors as the price, available capacity and the expertise possessed by the plant as criteria,” (Director of the purchasing offices, ADORA Annual Report 2012: 18).

“The country of production is often selected during the early stages of the design process, when the product development staffs make suggestions for materials. Different countries have their own strengths. India has special expertise in the production of decorated and embroidered items, while Pakistan is an expert in manufacturing jeans. Bangladesh is well-suited for making volume products, such as cotton t-shirts, while the Chinese are good at turning out products that require precision, such as bras. Turkey has the best location for making products that have to be put on the market

quickly” (Director of the purchasing offices, ADORA Annual report 2012: 18).

“Designers come up with the IDEA. Purchasing offices put this idea into practice” (Director of purchasing offices, ADORA Annual Report 2012: 16).

“We have 20 designers, and all our collections are designed by our own 20 designers. The design manager leads the trends and collections. Our designers are responsible for different brands and who agree them with our suppliers. Most of our designers have been working with the company for a long time, and they already know the history of the company and the major needs of the company. They work as a team to design our collections” (Interviewee, Zomaya).

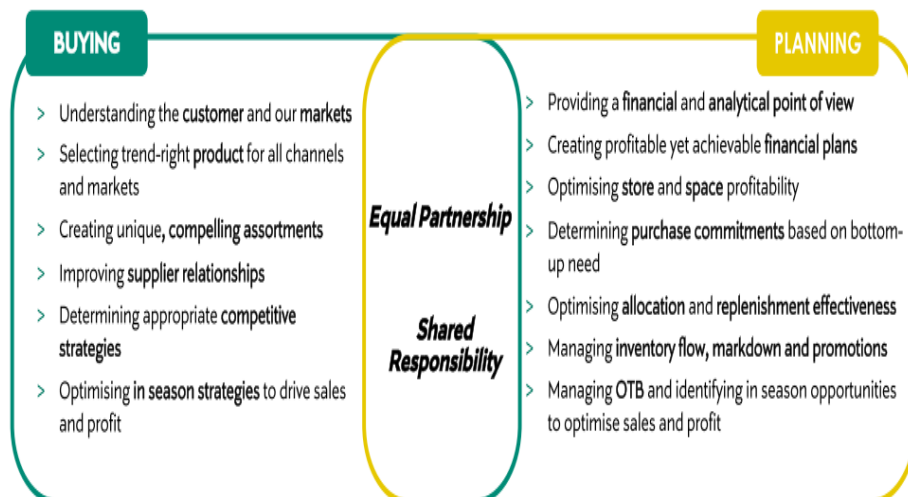
“The merchandise management and buyers visit the department store regularly. “At our meetings we go over the product selection, key financial indicators and visual marketing. We also discuss product pricing, the local market position of brands and competition environment in St. Petersburg. “We discuss customer feedbacks and analyse the results and effect of various campaigns. The buyers also closely monitor customer behaviour at the department store. We also maintain weekly contact in addition to these visits,” (Director of department store, ADORA Annual Report 2012: 13).

The evidence from the data shows that subsidiaries of Finnish multinational retailers apply a strategy of collaboration to response to difficulties related to demand and supply uncertainty planning. The evidence from the data indicate that there is cross-organisation collaboration with manufacturers and suppliers to deal with issues such as price, available production capacity and expertise possessed by the plants regarding various products. Adora and Zomaya use collaboration a strategy to coordinate cross-function and cross-firm activities and work reciprocally over to achieve superior performance. Designers work in teams to come with the designs for the various collections. Designers and buyers also work together to determine the price for the product and the size of orders. The buying offices also work in close cooperation with suppliers in negotiating best possible prices in order to ensure quality and competitive prices even for the smallest orders.

This finding is in line with previous studies (Forslund & Jonson 2009; Holweg et al 2005; van der Vaart & van Dock 2008) who noted that given suppliers may integrate supply chain at any time, retailers need full cooperation in their supply chain through information sharing and collaborative operating processes. The fact that the buying offices of Adora and Zomaya are located in China, Hong Kong, India, Bangladesh and Pakistan also lends support to Salmi’s (2006) findings that

personal relations played many roles in building and developing relationship between Chinese suppliers and Western companies. This finding is also in line with (Min et al. 2005) assertion that collaborative practices have been argued to be important to the creation of firm capabilities and/or performance outcome.

*Centralisation of purchasing* – Centralisation is one the structural components of an organisation. It denotes the division of the decision-making authority between headquarters and the branches/subsidiaries of a multinational corporation (Quester & Conduit 1996). According to Quester and Conduit (1996: 402) “centralisation is not an end in itself, it simply allows the organisation to mobilise its resources in order to reach its objectives.” In 2011, the parent company of Adora and Zomaya introduced a completely new buying organisation model where the central purchasing office is responsible buying for the whole fashion chains in all countries. The purchasing planning activities of the parent of Adora and Zomaya are shown in Figure 16.

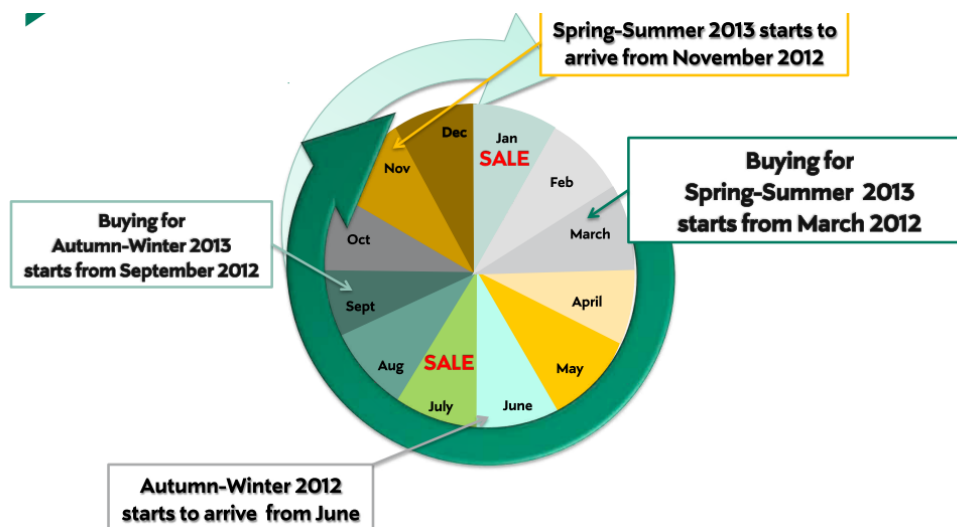


Source: Company PowerPoint Presentation 2012

**Figure 16.** Buyer-planner organisational model

The purchasing office is responsible for developing deep expertise in both buying and planning functions. The purpose of the purchasing offices is to enable the company to drive sales, boost margin and manage inventory more effectively. The buyer is responsible for understanding customer wishes and trends, finding commercially attractive products for the selections; and the planner see to the buying budget, inventory management, and allocation of the products between the different department stores, channels and countries. In short, the buyer and planner purchase the brand under their responsibility for the whole fashion chain. The new model was fully put into use in 2012 together with an ongoing Enterprise

Resource Planning (ERP) project. Adora and Zomaya offer wide unique assortment of high quality fashion products sourced through internal professional buying planning organisation. Efficiency and buying skills are key factors in managing extensive selection of products. The evidence from the data indicates that Adora, Zomaya and Palela adopt centralisation strategy in response to the normative pressure of *supplier fragmentation*. Adora and Zomaya have centralised purchasing of fashion goods via purchasing offices located in China, Hong Kong, India, Bangladesh, Pakistan and Turkey. The buying planning activity of the parent of Adora and Zomaya is shown in Figure 17.



Source: Company PowerPoint Presentation 2012

**Figure 17.** Buying for fashion product plan

The purchasing offices buy the clothes for the fashion chains from a network of 569 factories operated by about 250 goods suppliers. Palela also centralised purchasing the Finnish logistic company, Inex Parters Oy. This is reflected in the following quotes:

RESEARCHER: About suppliers, how do you get your products to your shops in Russia?

INTERVIEWEE: “Most of our products are imported, we have centralised buying organisation that take care of the buying for the Finnish market, Russian market and the Baltic markets as well. We import the goods ourselves, and then deliver them to the central warehouse in Russia, and then to the department stores (Interviewee, Adora).

“We try to centralise our buying and we are trying to construct or operate a terminal at the moment. It is an on-going project at the moment” (Interviewee, Palela).

“The department store division’s buying has been concentrated in a buying organisation that serves the entire chain. This organisation underwent a considerable change during 2012. “The accuracy of purchases is extremely important for the profitability of the department store. It is very important to have the right amount of products at the right time. The enhancement of our buying and planning operations has already had a positive impact on our results.” The merchandise management and buyers visit the department store regularly” (Director, ADORA Annual Report 2012: 13).

“We have our own import from Inex partners in Finland: Basically, we concentrate on our product level groups and which comprise both rental and export goods. The goods from Finland are supplied by Inex Partners Oy, and the export is realised through Inex Export. Our company is a corporative and it is one of the oldest corporative in Finland and we are about 100 years old. We still have 22 local cooperatives that manage our central unit. Our central unit produces services for them such as assortment management, price management, and premium brand management and so forth” (Interviewee, Palela).

“All our products come to Russia from Finland. After customs clearance they are transported either directly to stores or to our outsourced warehouses in Moscow or Saint-Petersburg” (Interviewee, Zomaya).

“Interesting collections sells well – Even though the garment suppliers selected by the purchasing offices are responsible for the raw material purchases, the purchasing offices are often involved in the negotiations so that we can secure the best possible price. In order to ensure competitive prices even for small production batches, we combine purchases of various sizes, involving different brands, into large orders. The largest orders involve hundreds of thousands of pieces” (Director of purchasing, ADORA Annual report 2012: 19).

“Our purchasing is centralised through the Finnish logistics company, Inex Partners Oy. We have strict control and it has been a political decision. It is very difficult to manage hundreds of import contracts so we have everything going through Inex Partners. We have other products coming through Inex Partners Oy other than Finnish products. For example, we have some margarine coming from Spain” (Interviewee, Palela).

RESEARCHER: Why has your company decided to deliver products to its stores in Russia by itself?

INTERVIEWEE: “It is the question of efficiency that we have basically chain buying and we are able to maintain the departmental store concept. We are like chain buying organisation and same marketing organisation for each and every departmental store. When we have the chain buying, it is much more convenient that way. In the chain, the Buying Offices buy the goods from certain suppliers, and then we have our own logistical organisation which delivers the goods to different markets. This is like our way to do it and to ensure that our concept will remain the same. And why we are having this logistic ourselves, also concerned decision made that we are able to meet the delivery times and control everything in our own company. And of course when we have the history and knowledge of importing goods to Russia starting from mid 1980s, at that time when we were delivering goods already to Moscow from our export service in Helsinki departmental store, it make sense to take care of this process ourselves” (Interviewee, Adora).

The evidence from the data indicates that subsidiaries of Finnish multinational retailers operating in Russia response to pressures posed by fragmentation of supplier system by centralised their purchasing activities through their own buying offices located in various countries in Asia, and through independent logistics companies in Finland. Adora and Zomaya has buying offices located in China, Hong Kong, India, Bangladesh, Pakistan and Turkey that buys clothes for all fashion chains in Finland, Russia and Baltic countries. Palela on the other hand centralised its purchasing activities through the Finnish logistics company, Inex Partners Oy. The fragmented nature of supplier system in Russia compelled Adora, Zomaya and Palela to centralise their purchasing system in Russia by directly taking control of buying and delivery of products to stores through internal professional buying offices, and external logistics company. Centralisation of purchasing improves efficiency in delivery planning and control of product flow to stores. Furthermore, centralisation of supply through own internal buying offices offer Adora and Zomaya an important competitive advantage. Centralisation of supply helps to ensure sufficient production capacity of high quality at all times.

This finding is in line with Lorentz and Luonela (2011: 692) which suggest that “the undeveloped state of supply chain in Russia compelled firms to take direct control over the management of logistics (a preference for in-house arrangements), the use of distribution centres and flexible delivery scheduling.” This finding also supports the study of Roberts (2005) who showed that the supply chain in Russia tends to be highly fragmented and notoriously difficult to manage (Roberts 2005:53). This result is also in line with Quester and Conduit (1996: 411) who found that distribution-related variables tend to be centralised possibly to adjust to the differences in market characteristics.

*Loyal partnership* – Due to the fierce competition in securing prime retail locations in major cities like Moscow and St. Petersburg, retailers have to develop loyal relationships with landlords and real estate developers. Some retailers also have their own (in-house) real estate companies to handle issues related to site search and management of real estate property. The interview data indicate that Adora has a separate subsidiary called OOO Nevsky Centre responsible for real estate and leasing operation in Russia. OOO Nevsky Centre is responsible for managing the real estate property where Adora's department store is located. Likewise Palela is closely involved with the VCA Baltic Retail which belongs to Viscus Capital Advisors Limited, is an investment fund focusing on retail properties and property development in Baltic countries, Russia and Ukraine. VCA Baltic Retail is the developer of Palela's hypermarkets and supermarkets in Russia and Baltic countries.

In addition, TONIKO Real Estate Int. Oy, a subsidiary belonging to TONIKO Group, the parent company of Palela, acquired a 60 percent holding in OOO Itis and OOO Itis 3 through a transaction completed on 24 January 2013. After the transaction, SOK Real Estate Int. Oy has 85 percent holding in each company. The purchase price of OOO Itis was EUR 10.6 million and that of OOO Itis 3 was EUR 8.0 million. OOO Itis and OOO Itis 3 are Russian real estate companies. These companies manage the commercial facilities with Palela stores in three shopping centres being built in the St. Petersburg area. The parent company of Case C plans to purchase the outstanding shares of OOO Itis, OOO Itis 2 and OOO Itis 3 as soon as the buildings are completed.

Zomaya which is a sister subsidiary of Adora often shares the same premises with Adora department stores. Some of the shops of Zomaya are located in shopping malls operated by independent retail mall developers. The interviewee of Zomaya indicated that they have very good partnership with the landlords and owners of the retail malls. The interviewee of Palela also indicated that they have very good partnership with landlords and real estate agents. This finding suggests that subsidiaries of Finnish multinational retailers operating in Russia establish their own real estate company, or enter into strategic alliances or partnership with real estate developers in order to overcome the problem associated with high store rent and scarce prime retail location. By having own real estate company, or forming strategic alliance/partnership with real estate developers, Finnish retailers are able to control or minimise the risks associated with unstable landlord relationships and unpredictable increase in store rent. A number of international retailers have real estate division within the firm, or as separate subsidiary to manage site search and retail property issues related to establishment of new stores in foreign markets. This finding is consistent with Owen, Palmer and Zueva-Owens (2013: 889) who



found that retailers enter into joint venture with real estate/property companies in order to overcome problems associated with site search and understanding the local real estate market norms. They found that relying on partner's property networks and expertise significantly help the space of hypermarket construction.

## 6.6 Cross-case analysis of retailer legitimacy

Suchman (1995: 574) formally defined legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”. Legitimacy is also defined as congruency between the values, norms, and expectations of society and activities and outcomes of the organization (Ashforth & Gibbs 1990; Dowling & Pfeffer 1975; cited in Zimmerman & Zeitz 2002: 416). To be successful in foreign markets, the international retailer not simply has to adapt its market offering and brand image in a relevant way to fit in with consumer values, it will, nevertheless, be difficult to gain legitimacy within the society and to generate the necessary support required unless it becomes an integrated actor on different levels in the new market (Samiee et al. 2003; Ozsomer & Simonin 2004; Elg et al. 2008). Based on institutional theory, social actors within the field of retailing in the host country will legitimise an international retailer based on how well the retail practices and structures conform to the institutional norms that are relevant for that social actor. Legitimacy here in this study is referred to as *the general perception that a retailers' economic and societal norms of retailing, retail management practices and retail structures (format/concepts) is deemed desirable, proper, or appropriate for a social actor such as a consumer, employee and supplier to accept or patronize.*

Normative institutional pressures featured prominently in the operations of the three cases. *Three main sources of normative pressures were evident in the interviews: customers, local employees and suppliers.* International retailers depend on consumers for store patronage, which is one of the most important factors influence performance (Dupuis & Prime 1996; Pioch, et al. 2009). Normative legitimacy include adherence to economic norms of retailing such as low price, convenience, assortment, quality; and societal-based norms such as excitement, fun, relationship, communication, community, and friendly service. Normative legitimacy also includes adherence to marketing and management practices such as advertising, human resource practices, management style, and supplier and distributor relationship management practices such as fair recruitment, fair wages, and cooperative relationship with suppliers and distribution channel owners, and community norms such as giving to charity, and ethical social responsibility.

The evidence from the interview data indicate that subsidiaries of Finnish multinational retailers in Russia gain legitimacy from *consumers, employees and suppliers* by adhering to economic norms of retailing by offering *unique retail concept and high quality product at reasonable price*. Consumers will legitimise a retailer based on low price, wide assortment, service, quality, and convenience. Communities will legitimate a retailer that is ethically and socially responsible. Employees will legitimise a retailer that offer good working condition and observes fairness in hiring, training, and rewarding employees. Suppliers will legitimate a retailer based on fair or mutual beneficial relational exchanges.

*Customer legitimacy* – The evidence from the interview data indicate that Adora, Zomaya and Palela gained legitimacy in the Russian market by adhering to economic norms of retailing by offering unique retail concept and quality product. In order words consumers appreciate the retail concept and quality of products offered by Adora, Zomaya and Palela. Consumers also appreciate the retail concepts of Adora, Zomaya and Palela. For instance, Adora is the only international department store in Russia. The retail concept and brand of Adora is based on flagship department store concept.

Furthermore, Adora's retail concept offer one-stop shopping experience based on wide and unique assortment of high quality products, excellent and professional customer service, competitive price-quality ratio, and inspiring and modern international shopping atmosphere. Product selections of Adora include: fashion, food, home decoration, consumer electronics, books, and stationary. Excellent customer service is also the priority of Adora, Zomaya and Palela. The retail concept of Zomaya is fashion retail offering extensive assortments and fun shopping experiences. Each store offers everyday fashion for customers of every age and size. The retail concept of Zomaya is focused mainly on women of age 25–35, interested in fashion. The collections are fashionable, easy-to-combine total outfits, affordable and priced reasonably for women, men, teenagers, and children.

The retail concept of Palela is based on grocery retailing consisting of hypermarket and supermarket concept. The supermarket concept is designed to offer wide assortment, convenience and easy shopping. Palela's supermarkets are located in shopping centres in the middle of neighbourhoods or near a metro station in the city. Stores are located in areas with at least ten thousand people, and with a maximum walking distance of fifteen minutes. Palela's supermarkets offer high quality and wide assortments or different price categories of groceries in key product groups covering 30 000–33 000 stock keeping units. The hypermarket concept is located in shopping centres and satellite cities and offer wide assortments of groceries in key product groups covering 45 000–60 000 stock keeping units. A re-

flection of the legitimacy of Adora, Zomaya and Palela is reflected in the following quotes.

RESEARCHER: How would you describe the consumer acceptance of your store concepts?

INTERVIEWEE: "If we talk about cultural differences, I think that especially here in St. Petersburg, our brand is really strong and in general, Finnish brand is well accepted or really important here in St. Petersburg. Finland already is a brand to customers. It means trustful and reliable retailer. For example, in customer service management in terms of customer feedbacks that we have received, and from what I have seen with my own eyes here, customers do appreciate our concept" (Interviewee, Adora).

"Our customers look for best product for best price and they are ready to spend some time to choose the best option. Attractive loyalty programs also work, but our bonus system bring real benefit for customers, as competition level in these programs is really tough" (Interviewee, Zomaya).

"And how it is to a Finnish company in St. Pete Russia? It is actually very comfortable because Finland is really seen or noted for quality, honesty, fair play and so forth. Finnish products are really good because there have been a lot of studies which shows that Finnish and Russian taste are similar, and the quality of Finnish product is very good. So basically, clients/customers are very comfortable with Finnish products and they are keen and anxious to get them, especially in our stores because they visit our stores in Lappeenranta. St. Petersburg to Lappeenranta takes about four hours so customers are able to see everything in our stores there. Finnish products have an important role in our stores in St. Petersburg. Our St. Petersburg clients trust in the quality of Finnish products" (Interviewee, Palela).

In practice, the transfer of formats/concepts by Adora, Zomaya and Palela to Russia have been well accepted and the "original" model in most cases has required minor adaptation to gain acceptability. Adaptation was mainly with product assortment regarding food items, particularly, fresh meat, fresh fish and fresh vegetables, cooking oil and tea. Adaptation is also made to fashion products based on brand volume. The desired assortment Adora, Zomaya and Palela is broad enough that consumers can reasonably expect to find the items they need most of the time. Case A, B and C seems to make an impact in the Russian market and their internationalisation efforts have been successful in Russia. The Case A, Zomaya and Palela have met the challenge of local competitors and other foreign retailers at a cost to their net margins, as differentiation incurs extra costs.

*Employees and suppliers legitimacy* - Furthermore, evidence from the interview data indicate that subsidiaries of Finnish multinational retailers gain legitimacy

from employees by adhering to economic norms retailing by being good and reliable employer. In addition, the evidence from the interview data show that Finnish retailers gain legitimacy in the eyes of suppliers by adhering to economic-based norms of retailing by being a retailer associated with quality. Employees appreciate the values of Adora, Zomaya and Palela as good and stable employer. Suppliers also appreciate Adora, Zomaya and Palela as retailers with the image of quality. This is illustrated in the following quote:

RESEARCHER: What do you think are the perceptions of employees or the general public about your company as an employer?

INTERVIEWEE: "I supposed that I already mentioned that we have good status and good brand here in St. Petersburg and that helps also in HR market. On salary level, we are not having such big gap in salary structure as in Finland. Here, basically everyone is having the same salary, and the rate is exactly the same for everyone. It helps to have the Adora and the history here in Russia and the company's values help in keeping our employees" (Interviewee, Adora).

"The members of staff in managerial positions are very committed. They value the opportunity to develop together with the company. Our members of staff are genuinely proud of the fact that we are a flagship department store in Russia. We work hard every day to ensure that we live up to the company vision of being the best department store chain in Europe" (Director, ADORA Annual Report 2012:15).

"I do believe that we have to be competitive at the salary level, but the other thing is the values that employees share, such as the stability of the work environment, regular payment of salaries and assurance that salaries will be paid on the due pay days as agreed so reliability as an employer is important. So these are the values that we promote and which employees appreciate" (Interviewee, Adora).

"We have very good employer image and all our salaries are legal, and there is nothing under the table, which is not exceptional in Russia" (Interviewee, Palela).

RESEARCHER: Why do you think suppliers want to do business with Stockmann?

INTERVIEWEE: "If we talk about local buying here in Russia, for example grocery food, there are certainly some of the suppliers who are willing to have their product our store. It is like an advertisement for them that we carrying their product, and they have the benefit of being associated with high quality and so on. Some of the suppliers are willing to show their product in our store because it is like good reputation for their brand or their company" (Interviewee, Adora).

“We are part of ADORA Group, one of the leading concerns in European retail; therefore we are viewed as reliable partner” (Interviewee, Zomaya).

The institutional perspective views social actors as interconnected, hence, overall retailer legitimacy can be negatively affected if the retailer does not comply with the norms of retailing required by social actors in the host country (Bianchi & Arnold 2004). Legitimation theory posits that for any organisation to survive, it must be supported by its relevant constituents. The evidence from the interview data suggest that subsidiaries of Finnish multinational retailers in Russia gain legitimacy from host customers, employees and suppliers by adhering to economic norms of retailing by providing unique retail concept and quality products. The country of origin of the retailer (Finland) is also viewed by host customers as signalling quality, trust and reliability. This finding is consistent with prior research (Arnold et al. 1996; Arnold et al. 2001; Bianchi & Arnold 2004; Pioch et al. 2009) which suggests that adherence to host socio-political regulatory and economic-based and societal-based norms of retailing enhances retailers' legitimacy. Moreover, Handelman and Arnold (1999) suggest that retailer legitimacy is an appropriate measure of business performance in itself, because it requires both economic and non-economic criteria

## 6.7 Cross-case analysis of retailer performance

*Research question three of this study inquire into what are the factors in the context of international retailing that influence the strategic response choices and performance of multinational retailers in Russia's market?* There is no general conclusion on what factors constitute success or failure in the foreign market. This study use one performance indicator- perceived non-financial performance. The non-financial field comprises operational performance and overall performance. Operational performance measures reflect three dimensions. The first is marketing dimension, and is measured by market share. The second dimension is innovation, and it is generally measured by the number of patents or patent frequency. The third dimension is productivity, and is measured by cost synergies. Overall measures of performance reflect two dimensions: success and survival. Success is measured by the degree of attainment of internationalisation goals. Survival is often measured by divestiture, dissolution, or exit within a chosen time interval (e.g. Meglio & Risberg 2011). Perceived non-financial performance includes studies using satisfaction outcome of firms' international operations, goal attainment and market share (Shirokova, Vega & Sokolova 2013; Zou, Taylor & Osland 1989). In this study, performance of Finnish multinational retailers in Russia is assed based on interviewee's perceptual evaluation of non-financial per-

formance measures reflecting, internationalisation goals attainment, customer loyalty, market share, or other attributes that emerge from the data.

Evidence from the interview data suggests that Adora, Zomaya and Papela view success in the Russian market as attributable to the following factors: *unique retail concept, unique extensive high quality products, quality-price ratio, consistency in retail concept, long-term commitment to the market, strong local management that understand company culture/value, loyal customers, sticking to company values and principles, attainment of expansion goals, excellent customer service, follow the law and bureaucracy, good store location.*

*Unique retail concept* represent the overall retail brand image, retail facilities, and services offered (Park & Sternquist, 2008). The case companies- Adora, Zomaya and Palela offer private brands with unique concept. A private brand is “any brand that is owned, controlled, and sold exclusively by a retailer.” (Park & Sternquist, 2008:285). Adora offers 16 fashion brands, 3 home brands, and 6 food brands which are completed with wide selection of international brands. Likewise, Zomaya offers a wide selection of own private brand in fashion products. For example, Zomaya offers four brands for women, one brand for men, two brands for youths, and five brands for kids. Palela offers about six food brands which include X-tra, RAINBOW, and OPTIMI. The influence of unique retail concept on performance is illustrated by the following quotes:

“Here in St. Petersburg, the ADORA brand, especially the food department is very strong. Our brand is reliable and if we have something under the label of ADORA, it is to our benefit. So there are no challenges with our own brand or private label products. [...] Some of our products are not made in Finland, but from other countries. For example, we have our private label in food department, for meals we have deli, which is produced locally in the department stores. Or we are having our own brands in food which are made here in Russia” (Interviewee, Adora).

“To be honest with you, the whole retail market here in Russia, there are not any international department store chain here in Russia except our store. There are lots of retailers, and there are lots of shopping mall carrying different brands, but not department store like Stockman in Russia. It is like our customers appreciate that they can purchase everything under the same roof so to say and different brands. Customers appreciate our concept here in Moscow and St. Petersburg in the sense that everything looks the same like the Helsinki departmental store. Therefore, there is no need to adjust the concept for the Russian market differently compared to Finland” (Interviewee, Adora).

“By far, the biggest factor impacting the profit is the attractiveness of the collections. The store must have the right products at the right time- the products which the consumers are prepared to pay the full price for” (Director of purchasing, ADORA Annual Report 2012: 19–20).

“Each of the six floors of the shopping centre is constructed around a coherent product world. This makes it easy for customers to shop at the department store and the specialty stores in the shopping centre,” says (Director of the Nevsky Centre, ADORA Annual Report, 2012, p. 12).

“We have seven floors for tenants, two floors for office, and three for packing. In total, we have 12 floors in the shopping centre. The merchandise area is divided by floors and this is something that we have learned from department store concept. So in the department store, we have perfume and cosmetics, accessories, opticians and gifts on floor 1, men’s fashion on floor 2, women’s fashion on floor 3 as in every department store which has emmer floors, so the shopping centre construction is basically the same” (Interviewee, Adora).

*Unique, extensive high quality product* denotes the product assortments offered by Case A, B and C in the Russian market. All the three case companies offer wide assortment of products in the Russian market than in the home country, Finland. For example, Adora and Palela mentioned that in the food area, more floor space is devoted to the fresh fish and meat counter than in Finland. For instance, Adora and Palela offer wide assortment in grocery products than in Finland. For instance, assortment in the concept of Palela covers 33 000–36 000 stock keeping units, while assortments in the hypermarket concept covers 54 000–67 000 stock keeping units. The products offered Adora, Zomaya and Palela are of high quality, and priced reasonably. In other words, all three case companies adopt a pricing strategy of matching quality and price i.e. quality-price ratio. Most of the grocery products of Adora and Palela are manufactured by Finnish food producers located in Russia. The influence of *unique extensive high quality product* on performance is illustrated by the following quote.

“Zomaya offers only its own design garments and accessories, which are produced in different partner factories in different countries under strict quality and social responsibility norms control by the firm. Last, but not least our brand is very well-known in our main city – Saint-Petersburg due to the short distance from Finland, as well as generally Finnish products have traditionally positive feedback in customers mind-sets of being good quality” (Interviewee, Zomaya).

“We always have wide assortment of high quality products, even wider than in Finland in key product groups at reasonable prices for target group

customers (private label and other Finnish products). The key is reasonable prices, and not the cheapest prices” (Interviewee, Palela).

*Consistency in retail concept and sticking to company core values and principle* is also mentioned by interviewees as influencing the firm’s success or performance in Russia. Interviewees of Adora, Zomaya and Palela stated that due to the unstable regulatory environment and high bureaucracy, it is important to maintain consistency in concept implementation and company values and principles. Interviewees reiterated that if one loses consistency in concept implementation, this can result in lack of differentiation from local competitors and thus leading to failure. This is illustrated in the following quotes:

“Don’t try to change your concepts here in Russia to be more like Russian. You have to trust your own strength which we are already having in Finland which is one key point. And vis-a-vis, I suppose that if you are entering the Russian market with your own concept, it is important that you have a clear business idea, and that you have your concepts which have already been implemented elsewhere. If you are trying to adjust the concept too much for the local market, I suppose you would then lose the knowledge that you possess which you were planning to bring to Russia, and you can end up in failure. I think the key for our success here in Russia is that we have been building up department store chain here firmly, and the key thing is the concept has been exactly as our department store in Finland. The second key thing is the same values that we have in the company in Finland. There is a lot of bureaucracy and legislations here in Russia which makes things more challenging and in our opinion, the only way that you can succeed is to follow the legislation and bureaucracy and learn to do it and then implement your own concept” (Interviewee, Adora).

“For anything to work in Russia, you need long-term commitment to management. You don’t want to go left, right and then straight again. You need to follow the same direction for a long time (pursue the same concepts and strategies for a long time), and then you achieve results. I think that is one of the major areas that we differ from Russians chains. If something does not seem to work, we don’t change it straight away. That is not the way to operate in Russia. You have to stick to your beliefs and move forward. For example, in non-food, we are not changing the ideas, because non-food is very difficult. But if we observe the situation for example, for three years and if some things need to be changed, then we make changes” (Interviewee, Palela).

“Committed personnel are the secret to our success- our core values, such as profit-orientation and exceeding customers’ expectations are tangible in the St. Petersburg department store and in everything” (Director, ADORA Annual Report 2012:14).



“Our core values: First of all, we are customer-oriented company and we make all our things and major process through the customer’s eyes. We follow customer’s needs and we most often ask customers about their needs and what they want to see in our collections. We try to improve our collections in general to meet all the needs of our customers. Furthermore, one of our core values is commitment, respect for our people, and we are making a lot of efforts to make people cooperate in the company. One good example of that is we have people working in the company for many years, most of them ten to fifteen years, so they have good knowledge about the company and have been making suggestions for improvement” (Interviewee, Zomaya).

“You have to operate according to your company values and principles. If you are not able to operate according to your company’s values and principles, then don’t enter the Russian market. You shouldn’t change your company values and principle when you operate in Russia, In Russia; it is not like how the saying goes ‘if you go to Rome, do what the Romans do’. It is not like that is this case in Russia” (Interviewee, Adora).

*Following the law and bureaucracy* is another factor mentioned by interviewees of Adora, Zomya and Palela as influencing success in the Russian market. Interviewees mentioned the importance to follow and learn the law and bureaucracy, and then implement own concepts. Interviewees stated that trying to circumvent the law and bureaucracy by paying some grey money (bribe) can lead to serious problems and failure. This is illustrated in the following quote.

“The third key point is to follow the legislation and be patient with the bureaucracy. I think those are the key points that we did not try to find any quicker way to go forward here in Russia. It is more stable to obey the rules and implement your own concepts. I believe those were the key to our success. There are some examples which I cannot mention is that if you enter the Russian market and try to bypass the bureaucracy and legislation by means of some grey money (bribery), then you will end up in short term and in disaster anyway” (Interviewee, Adora).

*Long-term commitment to the market* represents adopting a long-term perspective of growth in the Russian market. Interviewees stated that it is important to adopt a long-term commitment of both financial and human resources in order to be successful in the Russian market. The retail infrastructure in Russia is still undeveloped therefore investment is needed in warehousing, logistics, and training of employees all of which takes time. The influence of long-term commitment to the market is illustrated by the following quotes:

“In Russia you should be patient and have long-term perspective. There is often higher ups and higher downs here in this market. You should be prepared for different kinds of problems. The economic situation here is unstable and the changes are so different as compared to Western countries. You have to be patient and prepared to take even losses at the beginning to implement your concept here in Russia, and then you can be successful. And one more point is that you are not having any quick wins here. In the 1990s, it is possible to have quick wins in Russia but not anymore. Every brand has been here, or is already here, so there is nothing like quick wins anymore. You have to be patient and implement your concepts, and there is also a lot of competition nowadays” (Interviewee, Adora).

RESEARCHER: Talking about being patient, I know that sometimes, companies are under pressure from shareholders to increase earnings so when your company was experiencing losses at the beginning of entering the Russian market, what was the feeling of shareholders?

INTERVIEWEE: “I might be the wrong person to comment on that, but I suppose that our board of directors were wise enough in the early stages not to have all the ‘eggs in one basket’. In the sense that we have strong fashion chain named which is operating in Sweden and Norway and we have strong department store in Finland and Baltic States. When we were trying to have future growth in Russia, we are able to balance total profit (revenues from other operations) with events in Russia and then to wait patiently for the investment to grow. This structure/strategy made it possible and now we are at the moment if you have read the latest news or annual report, we are now highly profitable in Russia and made the highest growth last year, so it was worth being patient and waiting a while” (Interviewee, Adora).

*Retail store location* is another factor which influenced the performance of the three case companies. Interviewees of Adora, Zomaya and Palela stated that one important factor that determines success of the retailer in Russia, particularly in St. Petersburg and Moscow is the store location. This is due to the fact that most Russians do not own a car, so stores have to be located in the city centre where there is heavy flow of traffic, such near metro stations, residential areas, and ring areas where there is easy access by public transport. The stores of Adora, Zomaya and Palela are located in the city centre near metro stations and shopping malls, hence attracting steady customer flow.

“Our keys to success- Reliable partner (landlord) with steady customer flow. In Russia it is quite a big challenge to get a very loyal landlord and to obtain quite a good rent ratio. We are trying to secure reliable partners with steady/strategic customer flow. We try to look for shopping centres where good customer flow is provided for us because we are working with fashion” (Interviewee, Zomaya).

“The key success factors of the department store in St. Petersburg are: city centre location, unique brand, department store concept with a full scale food department, unique, international standard milieu and atmosphere, packing facilities and high safety standards” (Director of Russian department store, in PowerPoint presentation 2011).

*Excellent customer service* is another area that interviewees of Adora, Zomaya and Palela mentioned as impacting on the firm’s performance in Russia. In terms of store staff training, each of the three case companies- Adora, Zomay and Palela offer the same training, as in the home county to their Russian staff. Adora and Zomaya evaluate customer service by using the same measure in terms of “mystery shoppers”. In other words, a third party company is contracted to carry out this service. Customer service is one of the stated core values of the firms. Store staffs of Adora, Zomaya and Palela in Russia are sent to the headquarters in Helsinki, Finland for training. Trainees are mentored by older sales staff to understand the firm’s customer service delivery. Likewise, expatriate are sent from the headquarters in Helsinki to Russia to train Russian managers through mentoring and showing leadership by example.

“The core value of our firm, namely customer orientation, is essential for success in all market situations. Thanks to our strong customer loyalty, the company’s competitiveness remains good” (CEO, ADORA Annual Report, 2012: 5).

“We try and have succeeded in implementing high customer orientation in the whole organisation because if you lose the customer, then you lose the business. It is very nice to talk about processes and some slide shows and PowerPoint but if you don’t know who your customers or if you don’t have anything to sell to them, then you would have an empty shop. You need to understand your customers and they don’t care about your processes or your slide shows. What they care about is goods in the store at the right time and at the right price. So in our opinion the managers of the store need to spend more time in the store, and they need to understand the customer. We try to make our stores nice for shopping, easy to navigate, neat and nice looking and convenient location” (Interviewee, Palela).

“We try to penetrate customer thinking into our service organisation, so we see the stores as our customers when provide purchasing services, marketing services, legal services and so forth. So that we will not forget that the main thing is how the store operates. At the moment, our shops are located at very good and convenient location for target group customers” (Interviewee, Palela).

*Strong local management* that understand company values and culture is another factor mentioned as impacting on the firm’s performance in the Russian market.

Adora, Zomaya and Palela all have strong local Russian managers who have been trained to work according to home market corporate culture/values.

“What we have learned is that we should have strong local management and local staff in order to succeed. We learned that we are not able to run our operations here using Finnish experts. International business cannot be managed by remote control. What is really important is to have strong local management that understands the company’s values and culture. We have to have a strong local management that is committed to our company’s values and principles that we have in Finland” (Interviewee, Adora).

“We have a good experience of working in the Russian market since 2004. We pay attention to local market specifics and constantly adapt our actions towards the reality of the market. We have a very flat and efficient organizational structure, which makes decision-making process easier and quicker” (Interviewee, Zomaya).

*Centralise buying* has also been mentioned as impacting of performance. Adora and Zomaya have buying offices located in China, Hong Kong, India, Pakistan, Bangladesh and Turkey responsible for buying clothes for the entire fashion chain. This is illustrated in the following quote.

“The enhancement of our buying and planning operations has already had a positive impact on our results. “The merchandise management and buyers visit the department store regularly. [...] Close co-operation between the purchasing offices and designers means higher profitability. Close relations with goods suppliers provide an important competitive advantage” (Director of purchasing office, ADORA Annual Report 2012).

*Attainment of international expansion goals* is also mentioned by interviewees as influencing success in the Russian market. This is reflected in the following quotes.

“Russian business becomes profitable- the St. Petersburg department store has already met the expectation set for it and its sales are climbing towards the point where it will be the division’s second largest department store. The Group’s position in Moscow has strengthened, as all our department stores in Moscow increased their sales considerably, and this was also the case in Ekaterinburg” (CEO, ADORA Annual Report 2012: 4).

“Revenue growth brought the Group a significant improvement in Russia at over EUR 19 million, and as we had promised, our operating profit in Russia became positive for the first time since the start of the financial crisis in 2008.” (CEO, ADORA Annual Report, 2012: 4).

“You need to know your market, and you need to know where you are competing. We were needed in the market. In other words, Russian consumers are in need of the product that we offer in the Russian market. We have now 14 stores, so I think we have succeeded quite well” (Interviewee, Palela).

“Concerning the department store, I would say that we are now in the stage or our strategy is that we are not opening any new stores in Russia at the moment, but of course if there will be good location, good opportunities, we have our eyes open. Currently, we do have strong growth in our department stores in Russia and in the coming four years. Our growth in Russia is quite stable now” (Interviewee, Adora).

“Success in Russia is a significant accomplishment which strengthens the Group’s reputation and brand both in Finland and internationally. It also creates new opportunities for the future of the entire Group. Foreign operations also enable growth, which is necessary for the company’s long-term success.” (TONIKO Annual Report 2012: 32).

The Russian department stores’ revenue grew by 19.0 per cent, and the operations became clearly profitable. In particular, the St Petersburg department store, opened in late 2010, significantly improved its result thanks to excellent sales growth. The five department stores in Moscow and the Ekaterinburg department store that was opened in March 2011 also experienced sales growth and improved their profitability (ADORA, Annual Report 2012).

The evidence from the interview data indicate that *unique retail concept, unique extensive, high quality products, quality-price ratio, consistency in retail concept, long-term commitment to the market, strong local management that understand company values and culture, loyal customers, sticking to company values and principles, attainment of expansion goals, excellent customer service, follow the law and bureaucracy, and good store location* impact on the performance of subsidiaries of Finnish multinational retailers in Russia. This finding is consistent with previous research (Vida et al. 2000) who found that unique retail concept s provide competitive advantage and provide leverage to the international market growth.

Retailers see their operating concept as an important reason to enter a foreign market (Alexander 1990). For instance, Burt (1991) suggests that a unique format with international appeal can be the basis of strategic competitive advantage. Likewise, the findings support the study by Pioch et al. (2009) who found that store attributes such as convenience, value prices, assortment, quality, store environment, service and sales promotion enhance consumer store patronage. Furthermore, this finding is in line with Chan et al. (2011) who asserted that by in-

volving in long-term leases or acquiring property/buildings, early entrants can lockout potential latecomers from prime real estate options. Accordingly, latecomers have to spend more time, money and effort relative to first entrant to compete effectively (Kerin & Varadarajan 1992; cited in Chan et al. 2011).

## 6.8 Cross-case analysis of firm and decision makers' characteristics influencing retailers' strategic responses to institutional pressures and performance

A number of firm characteristics also help to explain Finnish retailers' strategic response choices to institutional pressures and performance in the Russian market. The retail dynamic model provided by Vida and Fairhurst (1998) focusses on the antecedents, process and outcome factors in the retail internationalisation process, and suggested that the interplay of the firm's characteristics and decision maker's characteristics, along with external environment act as promoters or inhibitors for whether a retailer will initiate international retailing operation, maintain a constant level, increase or decrease its level of international involvement, or completely withdraw from its international activities. Even though the influence of the external environmental factors is recognised in this model, the primary focus is on the impact of the decision maker's characteristics (e.g. experience and attitudes of management) and firm characteristics (e.g. retailer's differential advantages). *Research question two of the study inquire into how and why did firms' characteristics and decision makers' characteristics influence retailers' strategic response to institutional pressures and performance.* The analysis of the interview data revealed a number of firm characteristics and decision makers' characteristics that help to explain Finnish retailers' strategic response choices to institutional pressures and performance in Russia.

### 6.8.1. *Firm characteristics*

Themes that emerge from the interview data to denote firm characteristics that influence retailers' strategic responses to institutional pressures include: *long-term resource commitment, corporate culture and value, and differential advantage* (i.e. unique retail concept with private label, unique extensive high quality products, own warehousing and logistics system, own purchasing offices, and store location).

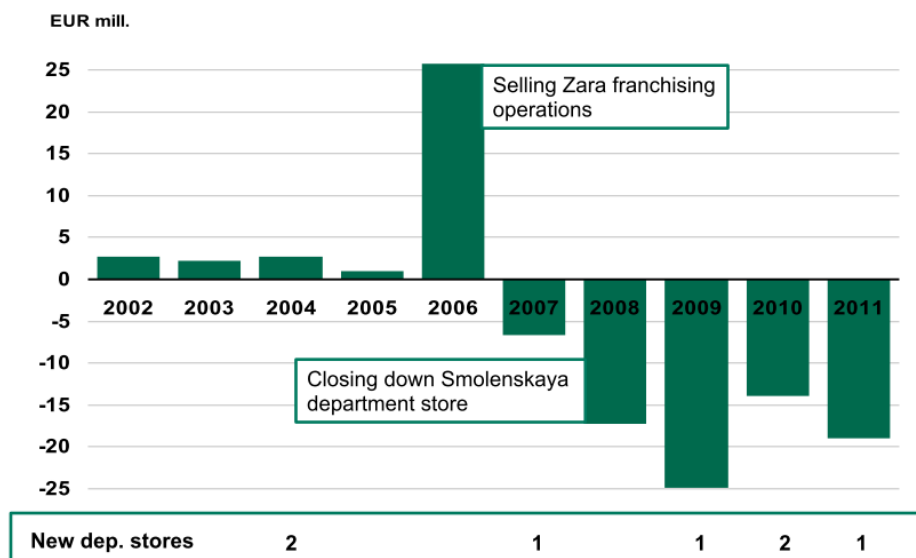
*Long-term resource commitment* here refers to the availability of financial and human resource (managerial capacity) for a firm for serving a particular market (Agarwal & Ramaswani 1992; Vida & Fairhurst 1998). The commitment of resources to the foreign market is closely related to the idea about the strategic development of the company's operation in the new market. In the Russian context, investment in internal resources of the firm represents the attempt to create a long-term competitive advantage and orientation on further development and growth. Resource is the financial and managerial capacity of a serving a particular market (Agarwal & Ramaswani 1992). Of particular importance are investment in real estate, human resource in terms of training and development, logistics and warehousing, information technology, and marketing and promotion. The importance of firm's resource availability in international expansion has been emphasised in previous marketing and export studies (Cavusgil & Zou, 1994; Johanson and Vahlne, 1977; Reid, 1981) and in international retail expansion (Evans et al., 2000; Vida & Fairhurst, 1998). In her framework, Vida & Fairhurst (1998: 146), refer to resource commitment factor as "the firm's financial and human resources available for assignment to international expansion by the corporate level of the organisation."

A long-term resource commitment strategy is pursued by Adora, Zomaya and Palela in response to the institutional pressure of profit growth, and uncertain business environment of Russia. Due to the legacy of the Soviet era, the retail sector in Russia is still underdeveloped, hence, lacking modern retail infrastructure such as warehouse and modern logistics systems, retail talent, marketing and communication channels, and market research organisations which is vital for the efficient operation of international retailers. Consequently, success in the Russian market requires that Finnish retailers undertake significant long-term financial and human resource commitment to the market, and are prepared to sustain period of negative performance on entry (see section 6.4.2).

Significant long-term financial and human resource commitment to the Russian market is necessary for several reasons: Large part of costs related to operating a department store or a grocery retail concepts such as hypermarket and supermarket come from real estate and personnel. Real estate costs in Russia particularly, in Moscow and St. Petersburg and other big cities are expensive. For instance, total project cost of a retail outlet is considerably affected by the land price, which on average amounts to 20 percent of the total development budget. Whereas good locations in regional cities in Russia may cost \$1 to 1.5 million per hectare maximum, in Moscow it will reach at least \$ to 8 million per hectare (The Moscow Times, 11 March 2013). Furthermore, to enter a new city or even a new part of a city in Russia requires extensive marketing support in the initial stage of opera-

tion. New store’s operating hours are just the same as in the old stores. In addition, depreciation of a major department store or large grocery retail store investment is spread over several years, and depreciation start to decline considerably only after the first five years.

Furthermore, annual revenue development for a new retail store during the first 3–5 years is normally large and slow. Therefore, large financial resource commitment is needed to sustain period of negative returns. Vida, Reardon, & Fairhurst (2000) suggest that larger firms are more likely to have resource to fund their international operations, and can typically absorb a longer period of low return on investment than smaller firms (Evans et al. 2000). With financial support from the parent company, Adora, Zomaya and Palela were able to withstand negative returns at the initial stage of operation in the Russian market. For instance, the development of operating profit of Adora’s department stores in Russia is shown in Figure 18. It can be observed in Figure 18 that significant losses as large as €25 million were incurred in the initial stage of operation of new stores.



**Figure 18.** Adora, Development of operating profit in Russia

In addition, revenue generation from of a new retail store is contingent on a number of factors. For instance, large part of product is bought in advance, therefore the first sale campaigns tend to be huge as there is no previous knowledge on allocated items and quantities or even store brands in the newly opened store. Furthermore, food, especially, vegetable and fruits need to be fresh every day, therefore, losses are normally huge during the start-up phase until demand and supply meet. Furthermore, majority of sales come from loyal customers, however, building the customer base from zero to full potential can take several years.



Moreover, new location, new brand, and new customer – it takes time to gain recognition especially in new markets such as Russia and to become a preferred store to shop. For instance, a manager commented, “if you compare St. Petersburg to Moscow, for example, our brand is known, or was already known partly here in St. Petersburg before we entered the market. Because Helsinki is so close and people do travel quite a lot from St. Petersburg to Finland. But in Moscow, we started basically from zero and no one there knew our brand so, to be close to Finland is pretty much supporting us here in St. Petersburg (Interviewee, Adora). Furthermore, new sales team, particularly, retail talent is scarce and it takes time to train new managers and employees to embrace the culture and values of Western companies. For example a manager stated that “a year ago the 270 sales associates in Ekaterinburg department store had no idea of what the company is. Now they are 110% committed to offering visitors the company’s customer service” (Director, Adora PowerPoint Presentation 2012). The establishing and operation of a new retail store therefore require significant long-term financial and human resource commitment.

The parent company of Adora and Zomaya is the largest department store in the Nordic countries and among the five largest department stores in Europe. The parent company of Adora and Zomaya is therefore well capitalised and able to commit significant financial resources that support long-term growth through the establishing of a wholly owned subsidiary in Russia. For example, total investment in Adora, which is a Flagship department store in St. Petersburg, is approximately €185 million. Currently, Adora has 7 department stores in operation in Russia; and Zomaya has 44 stores in Russia, all requiring significant capital investment.

Similarly, the parent company of Palela, being the largest grocery retailer in Finland, and ranked 82<sup>nd</sup> on Deloitte’s 2013 list of Top 250 Global Retailers was able to commit substantial financial resources for setting up Palela as a wholly owned subsidiary (WOS) in Russia. Within five years of entering the Russian market, Palela has opened 14 stores- 5 hypermarkets and 9 supermarkets, all of which require large capital investment. Thus aided by the financial and human resources of the parent company, Adora, Zomaya and Palela were able to select a higher control entry mode of WOS in entering the Russian market. The following comment reflects long-term resource commitment to developing subsidiaries of Palela in the foreign market:

“Thus far, investments in neighbouring countries [Russian and Baltic Countries] have been funded by loans issued by the Group [Parent Company] to its foreign subsidiaries. When subsidiaries in the neighbouring countries have grown their network sufficiently, new investments can be funded by

their own flow of income. This is almost happening now, since the total cash flow has turned positive” (TONIKO Annual Report 2012:32).

Similarly, a manager of Adora made the following comment regarding long-term resource commitment to developing subsidiaries in the Russian market when considerable losses were being incurred at the initial stage of developing new stores in Russia:

“Our board of directors were wise enough in the early stages not to have all the ‘eggs in one basket’. In the sense that we have strong fashion chain named Lindex which is operating in Sweden and Norway, and we have strong department store in Finland and Baltic States. Thus, when we were trying to have future growth in Russia, we are able to balance total profit (revenues from other operations) with events [losses] in Russia and then to wait patiently for the investment in Russia to grow” (Interviewee, Adora).

“In Russia you should be patient and have long term perspective. There are higher ups and higher downs here in this market. You should be prepared for different kinds of problems. You have to be patient and prepared to take even losses at the beginning to implement your concept here in Russia, only then you can be successful. And one more point is that you are not having any quick wins here. In the 1990s, it is possible to have quick wins in Russia but not anymore, every brand has been here, or is already here, so there is nothing like quick wins anymore” (Interviewee, Adora).

The evidence from the interview data suggest that Adora, Zomaya and Palela adopted long-term resource commitment strategy geared towards long-term presence and growth in the Russian market. The parent companies of Adora, Zomaya and Palela have allocated significant financial and human resource towards the establishment of the subsidiaries in Russia. Adora, Zomaya and Palela are all profitable in the Russian market after sustaining some losses at the initial stages of their operations. For instance an interviewee of Adora made the following comment in reference to the subsidiaries profitability in Russia. “We are at the moment, if you have read the latest news or annual report that we are now highly profitable in Russia and made the highest growth last year [2012] so it was worth being patient and waiting a while. Currently, we do have strong growth in our department stores in Russia and in the coming four years.[...] Our growth in Russia is quite stable at the moment” (Interviewee, Adora). The parent company of Adora, Zomaya and Palela are well capitalised Finnish multinational retailers, thus, able to pursue long-term resource commitment strategy for international expansion.

This finding is consistent with previous researches (Evans et al. 2000; Chan et al. 2011; Lu, Karpova & Fiore 2011; Vida & Fairhurst 1998) which asserted that high level of financial capacity enables firms to adopt high control mode and long-term presence in the foreign market. In addition, this finding is consistent with prior studies which argued that larger firms, particularly in reference to financial resources, have more chance of performing well in international markets because they can commit more resources and withstand greater financial risk (Agarwal, 1994). Evans et al. (2000) mentioned that this ability to sustain period of negative returns can also be related to ownership. Furthermore, the finding is in line with Marinov and Morinova (1999) who found that investment environments in transition economies of Central and Eastern Europe are suitable for long-term strategic investments. The finding also supports Vida & Fairhurst's (1998) assertion that the ultimate outcome of each stage of the expansion process will have an effect on performance as the level of resources committed will tend to increase if the initial involvement produces positive results.

*Corporate culture and value* is another firm characteristics identified in the interview data as influencing retailers' strategic responses to institutional pressures and performance. Corporate culture is "based on the visionary ideas and appears to reflect the shared behaviours, beliefs, attitudes and values regarding the organisational goals, functions and procedures which are seen to characterise particular organisations" (Furnham & Gunter 1993, cited in Vadi & Vereshagin 2006:190). Organisational culture is seen to be of great importance by numerous authors. For instance, arguments made in favour of organisational culture include its ability to influence important organisational outcome, such as employee commitment and satisfaction, and hence affect individual and organisational performance (Sadler 2001; Vadi & Vereshagin 2006).

A common problem experience by Adora, Zomaya and Palela regarding Russian employee behaviour is lack of commitment to the organisation, taking self-initiatives, and accountability and responsibility for one's work. In other words, Russian employees cannot determine on their own how to organise their work activities to achieve organisational goals, but rather wait on the boss to tell them what to do. A reflection of this is illustrated in the following quotes.

"May be one thing they lacked [Russian employees] is commitment which is pretty different from Finland. In Finland, those values when you are working for a certain company which you always appreciate such as the stableness of employment and reliability of the employer. Over here, those values are least appreciated, so for example, we are having problems like when you have just trained someone to be sales manager and then another company approach him or her and offered for example, 500 Rubbles

more, then the employee left the company. So these are some of the challenges we are facing, and this happens not only at sales manager level, but also at department manager level as well” (Interviewee, Adora).

“In Finland, we are very democratic, you leave your employees to make decisions on their own and come to conclusions, which is very nice to do with Finnish people. Here, if you don’t basically give direct instructions and very direct and specific goals that you want to be achieved, you are really in trouble. Here, employees needed to be given direct instructions such as who is doing what, and who is responsible for what. And responsibility means to be very concrete. You cannot think that people would think for themselves that when I do this, then I am responsible for it as well. You need to tell them ok, you are responsible for this and this project, this are the goals and this is the due date. Don’t work in Russia without due dates. It is more or less dictatorship kind of people management. It is not like in Finland where you can say for example, would you be so kind to do this project for me and I want it next week Monday. In Russia, you have to be more concrete” (Interviewee, Palela).

Another problem faced by Adora, Zomaya and Palela in the Russian market relates to Russian management style which emphasise hierarchical top-down decision making. Most Russian managers have little to no understanding of free-market strategic management and marketing principles. Critical to the idea of a free market economy is the idea that an individual’s freedom of choice cannot be separated from accountability and responsibility for organisation and personal goal attainment (Holt, Ralston & Terpstra 1994). However, Russian people have had neither this individual freedom nor the responsibility that accompany it during much of their history, especially during the communist control era to Perestroika (May, Young & Ledgerwood 1998). Thus, a critical problem for Finnish retailers in Russia is a widespread avoidance of responsibility and lack of accountability among many Russian employees.

Russian management style exhibits one-man power mainly in terms of hierarchy and formal control status that allow only the manager to assign tasks and control outcomes. In the socialist past, the Stalinist management system practiced in Russian companies included very high degree of centralisation, dominance of formal rules, and authoritarian leadership (Michailova (2002). Both Russian managers and employees treat one-man authority as “given,” “needed” and “vitaly important.” Therefore they both accept it without questioning it (Michailova 2002:183). Authoritarian leadership style is not viewed as unsuitable, rather, it is highly respected as a requirement for discipline and order and, consequently for positive development (Michailova 2002). Silencing the individual voice at the interest of the group/collective/class/society during socialism allowed employees to distance themselves from taking action and feeling responsible for organisa-

tional behaviour and goals (Michailova 2002). A reflection of this is illustrated in the following quotes:

“Management practices differ in Russian-owned companies. However as we are an international company we implement international approaches to leadership and management and do it in line with our organizational culture” (Interviewee, Zomaya).

“If we are having new managers, it is of course a challenge to train them to work according to our company values and way in management because, if we talk about the overall Russia, there is big difference. And which I know from seeing our partner for example, it is much more like authoritarian. In other words, the boss is the boss, and everyone is acting after the boss, and the boss telling them what to do. So yes, there are cultural differences but I think that we have overcome those quite well in our company” (Interviewee, Adora).

Russian employees have been exposed to the strong-leadership style for many decades and it has been imprinted on in their minds, and they are used to it and respect it (Michailova 2002:183). However, this type of hierarchical organisation structure and autocratic management style inherent from the Soviet era is incompatible with the flat organisational structure and bottom-up participative decision making management style practiced by Adora, Zomaya, and Palela. Poor management practices, bureaucratic inefficiencies and low productivity levels inherited from the Soviet era has been imprinted on the minds Russian employees and managers and thus create significant problems for foreign companies. Thus, Adora, Zomaya and Palela had to implement their own corporate culture and management culture in order to achieve the intended goals and objectives for entering the Russian market.

The way in which Adora, Zomaya and Palela solve this problem is a reflection of the corporate culture and management culture of the parent company. Management culture is developing system of beliefs, values and assumptions shared by managers about the desired way of managing the organisation so that it can adapt to its environment (Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Lubatkin, Schweiger & Weber, 1999; Migliore, 2011; Rosenblatt, 2011; Schein, 1985; Weber & Tarba; 2012; Weber & Pliskin, 1996; Weber, 1996). Corporate culture is an acquired system of knowledge and frameworks of reference that make the understanding and explanation of what occurs in the organisation, in the sector and in the world at large (Weber & Tarba, 2012:292). Coe (2004:1585) mentioned that “corporate culture of individual firms may have significant bearing on their internationalisation strategies and, indeed, on whether they may internationalise at all”.

Adora, Zomaya and Palela managed change in Russian employee behaviour and management style to reflect the parent's corporate culture and management culture by transferring corporate HRM policies and practices to the Russian subsidiaries. This was achieved through training and development. In the initial stage of entering the Russian market, expatriate managers from the parent's headquarters in Finland were sent to the Russian subsidiaries to train Russian managers in free-market strategic management and marketing principles. Russian managers were also sent to the corporate headquarters in Finland for training, and to observe the parent's corporate culture and values and management culture in action. Adora, Zomaya and Palela transferred their organisational culture and management culture to the Russian subsidiary by implementing participative leadership methods, invoking company values, and involving employees in decision-making. Expatriate managers cultivate the new corporate culture and values among Russian employees and managers through leadership by example, and showing a clear sign of respect and recognition of managers and employees' abilities and skills by trying to empower them. This is reflected in the following comments.

“During the recruitment, we are discussing what are the values of the employee and the values of the company and both the employee and our [company] values should fit” (Interviewee, Adora).

“We have our structures for training, we train employees in Finland which we adopt here, but we need to check the materials for training because here, the mentality is different: People coming to the retail sector often don't know anything about retail here, so you need to really start from the basics” (Interviewee, Palela).

“Most of our managers, especially directors here in Russia have been working for us like for five or even ten years before they become as a manager so they understand the company's culture and values. But of course if we have new managers from outside, then it is really long process how we will train them to understand our values and they would have to visit Finland for training. So that is one of the big challenges here in Russia” [Interviewee, Adora].

“Changing employee's behaviour and management style is mostly about training. It is about showing examples and when we started in Russia, we use to have many expatriates/employees from Finland with strong company background who work here [Russia] and show by example how things should be done. At the moment we are not having anymore lot of expats here in Russia. The parent's culture is now entrenched here inside the subsidiaries. Changing employee and management behaviour is basically about training, it is about showing example and giving instructions” (Interviewee, Adora).

“We try and have succeeded in implementing high customer orientation in the whole organisation because if you lose the customer, then you lose the business” (Interviewee, Palela).

“What is really important is to have strong local management that understand the company’s values and culture. We have to have a strong local management that is committed to our company’s values and principles that we have in Finland. You have to operate according to your company values and principles. If you are not able to operate according to your company’s values and principles, then don’t enter the Russian market. You shouldn’t change your company values and principle when you operate in Russia, In Russia; it is not like how the saying goes ‘if you go to Rome, do what the Romans do’. It is not like that is this case in Russia” (Interviewee, Adora).

“Zomaya has a very flat and efficient organizational structure, which makes decision-making process easier and quicker. We are customer-oriented company and we make all our things and major process through the customer’s eyes, we follow customer’s needs and we most often ask customers about their needs and what they want to see in our collections. We try to improve our collections in general to meet all the needs of our customers” (Interviewee, Zomaya).

The findings indicate that subsidiaries of Finnish multinational retailers have used human resource practices, particularly, training and development and expatriates as a mechanism to transfer the parent company’s corporate culture and management culture into the Russian subsidiaries. Russian managers were sent to the parent headquarters in Finland for training, and Finnish managers (expatriates) were sent to Russian subsidiaries to train Russian managers to learn Western free-market strategic management and marketing principles. Adora, Zomaya and Palela used training and expatriates as a mechanism to change Russian management style and employee behaviour and builds a culture that foster organisational commitment and encourages self-initiative, accountability and responsibility. Taylor (1989:143) defined training as “attempts to develop any combination of physical and cognitive skills in order to achieve new or more effective ways of behaving”.

The findings is consistent with Dawson (2007) who argued that in the internationalisation process, committed retailers make four major transfers to the host country, including transfers of the firm’s business culture and business models as well as its operational techniques. The finding is also in support of Vadi and Vereshagin (2006) who noted that human resource management (HRM) practices are related to organisational culture because organisational culture creates routines for day-today practices. The finding is also in line with Duran and Wrigley

(2009) who stated that “as transnational retailers expand abroad they export corporate cultures and business practices shaped by the institutional environment of the home market” (e.g. Aoyama 2007; Christopherson 2007). Similarly, Brown and Burt (1992b:80-1) argued that the key to successful retail internationalisation is “managing change in systems and methods”, and emphasise the importance of existing literature on organisational behaviour, management styles and corporate cultures. Dupuis and Prime (1996:36) also stated that “a major issue concerning retail globalisation has to do with corporate culture”.

*Differential advantage* refers to the uniqueness of a firm’s products or services introduced in the foreign market (Cavusgil 1982; cited in Vida & Fairhurst 1998). Example of differential advantages found among international retailers include unique retail concepts, close relationship with channel members, competitive pricing and new formats (Vida & Fairhurst 1998). Given the fact that decision makers may not have knowledge, experience, and/or resource commitment from their firms in the pre-internationalisation phase, behavioural models of international involvement highlight firm-specific competitive advantage as an important driver to internalisation (Vida 2000). The purpose of building differential advantage is to separate the retailer from the competition in the minds of the consumer.

A differential advantage has to be maintained against the competition, and it must be based on some resources distinctive to the firm and hard to copy (Corstjens & Corstjens 1995). To sustain a differential advantage, the international retailers have to differentiate their offerings from the competition in order to create loyalty among the customers forming its target market. The strategies of Finnish multinational retailers can be expected to differ greatly between Russian and other foreign retailers. This is likely due to a difference in the resources that are held. Different strategies result from these resource bases (Ferne & Arnold 2002). The differential advantages of subsidiaries of Finnish multinational retailers in Russia identified in this study include: to *unique retail concept with private label, unique extensive high quality products, own warehousing and logistics system, own purchasing offices, and store location.*

#### *Unique retail concept with private brand-*

Unique retail concept refers to the “overall retail brand image, retail facilities, and services offered” (Vida et al. 2000:52). A private brand is “any brand that is owned, controlled, and sold exclusively by a retailer” (Park et al. 2008). A multinational retailer having a strong private brand can develop differentiated products by selling exclusively to customers. The major advantages of retailer’s private



label are a desire to maintain independence from national and international brands, a need to increase profit, and desire to be distinct from competitors and to inspire customer loyalty.

The brand identity of Adora and Zomaya influences everything from store location, assortment, marketing, store atmosphere to customer service. Attractive brands and successful collections of Adora and Zomaya are the key drivers for growth in the foreign market. The fashion offering of Adora and Zomaya covers a variety of fashion concepts within women's and children's wear, lingerie and cosmetics. The selection is characterised by well thought details, the latest fashion trends and fast turnover of new products. The fashion offering of Zomaya include products for women, men young people and children as well as accessories, footwear, bags, and cosmetics. Baby collection was launched in April 2012. The collections are designed by a team of 16 own designers, which makes up over 5000 unique own products per year.

The department store concept of Adora offers one-stop shopping experience with excellent quality and competitive prices for wide customer group. Product selection includes fashion, cosmetics, home decoration, consumer electronics, stationary, sports, books and food. The brand portfolio of fashion product for Adora include world's top international brands such as Armani Collezioni, Burberry, Diesel, Hugo Boss, Filippa K, Tommy Hilfiger, Gant, Guess, Calvin Klein, Gucci etc. Furthermore, the brand positioning of Adora offer wide and unique assortment of high quality, excellent and professional customer service, competitive price-quality ratio, inspiring and modern international shopping atmosphere more than the customer can expect. Private branding is an important success factor for Adora, Zomaya and Palela in the Russian market. The brands of Adora is designed by own designers and produced in tight cooperation with own purchasing offices located in Hong Kong. The private brands of Adora include: CRISTELLE & CO., BOGI, CASA, CAP HORN, CUBE CO, GLOBAL ASSESSORIES, and BODYGURD. Adora department stores offer other commercial services which include over 70 store tenants, 14 cafes and restaurants and underground car park for 560 cars.

By implementing a clearer unique concept, Adora, Zomaya and Palela are able to response to consumer taste and preferences (demand for quality products) and market completion by differentiating themselves from the competition based on providing unique retail concept. For instance, Park et al. (2008:284) noted that "the retailer having a unique capability is able to distinctively produce its retail concept, which also allows for differentiation from competitors. Evidence of the unique retail concept of Adora, Zomaya and Palela is reflected in the following quote:

“Our brand is accepted very well here in St. Petersburg, especially the food department, the Adora brand is very strong and is considered reliable. And if we have something under the label of Adora, it is to our benefit. We have our private label in food department, and for meals, we have deli which is produced locally in the department stores. We also have our own brands in food which are made here in Russia. So there are no challenges with our own brand or private label products in Russia” (Interviewee, Adora).

Our “brand is very well-known in our main city – Saint-Petersburg due to the short distance from Finland, as well as generally Finnish products traditionally have positive feedback in customers minds of being of good quality” (Interviewee, Zomaya).

“If you compare St. Petersburg to Moscow, for example, the Adora brand is known, or was already known partly here in St. Petersburg before we entered the market. Because Helsinki is so close and people do travel quite a lot from St. Petersburg to Finland” (Interviewee, Adora).

“By far, the biggest factor impacting the profit is the attractiveness of the collections. The store must have the right products at the right time- the products which the consumers are prepared to pay the full price for” (Director of purchasing, ADORA Annual Report 2012: 19–20).

“We try to make our stores nice for shopping, easy to navigate, neat and nice looking and convenient location. At the moment, our shops are located at very good and convenient location for target group customers” (Interviewee, Palela).

“To be honest with you, in the whole retail market here in Russia, there is no other international department store chain, except Adora. There are lots of retailers, and there are lots of shopping mall carrying different brands, but not department store like Adora in Russia. Each of the six floors of the shopping centre is constructed around a coherent product world. This makes it easy for customers to shop at the department store and the specialty stores in the shopping centre. We offer “one-stop-shop” consisting of various facilities such as coffee shops, restaurants, and beauty salons etc.” (Interviewee, Adora).

“Our store concept offers an interesting shopping environment for all our target groups. The store concept supports our wide range of products. Our goal is to be interesting, surprising and easy to approach for customers who are interested in fashion” (Interviewee, Zomaya).

“Our strategy is based on our strength or internal competencies, and we have decided that we will not be competing against discounters etc. Our business ideas, concepts, and best practices are transferred from Finland

and localised in St. Petersburg. We use the Finnish business concept, business ideas and processes to the extent that it is possible in Russia, because not everything is possible here [Russia]” (Interviewee, Palela).

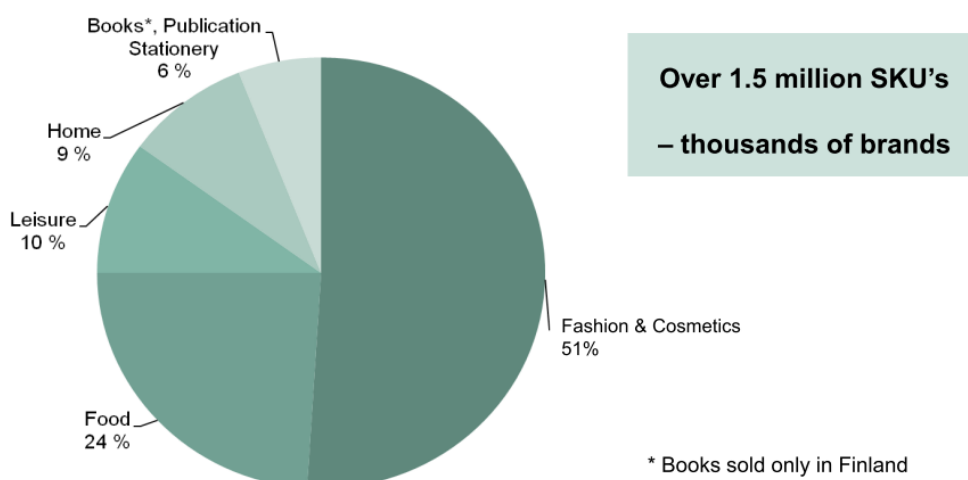
The evidence from the interview data indicate that Adora, Zomaya and Palela gain differential advantage by providing unique retail concept that offer good brand image and own private label products that are well accepted by Russian consumers. Adora, Zomaya and Palela cite their retail concept as offering them competitive advantage over local chains in the Russian market. Adora operates a department store format offering a unique collection of high-fashion brands and own private label product for the upper and middle class target group. Adora is the only international department store in Russia at the time of writing this dissertation.

Palela operates two retail formats/concepts in Russia- hypermarket and supermarket based on distinct layout, deep product assortment and excellent customer service. Zomaya operates a fashion chain concept offering unique collection products by Finnish designers targeted at women, youths, children, and men. The interview data also indicate that retailer differential advantage based on unique retail concept and private label enhance the performance of subsidiaries of Finnish multinational retailers in Russia. The differential advantage of unique retail concept with private brand also enables Adora, Zomaya and Palela to respond to the normative pressure of market competition and consumer preference for brand and quality products.

This finding coincides with William (1991) who found that “a distinct retail concept” did represent a significant competitive advantage for international retailers in the United Kingdom. This finding is also consistent with prior research (Evans et al. 2000:384) who suggested that “innovative formats may perform well as they can satisfy consumers in new ways and avoid direct competition from more traditional retail formats”. Likewise, (Chan et al. 2011:101; citing Burt 1991) stated “novel formats with international appeal can form the basis of a strategic competitive advantage”. Furthermore, this finding is in support of Vida and Fairhurst (2000:52), who found that expertise in the development of clearly definable unique retail concepts offer a competitive advantage and provide leverage to the international market growth. The finding supports the study by Lu et al. (2011) who stated that strong brand equity with related value of exclusivity, and design excellence has been identified as an important competitive advantage in the fashion market. The finding also supports Park and Sternquist (2008) claim that pricing advantage along with the appeal of a unique brand that is clearly focused on the target market leads to increase in market share for the retailer.

*Unique extensive high quality products-*

Unique extensive high quality products also confer international retailers with differential advantage. Adora and Palela offer wide assortment in grocery products than in Finland. For instance, assortment in the concept of Palela covers 33 000–36 000 stock keeping units, while assortments in the hypermarket concept covers 54 000–67 000 stock keeping units. Likewise, Adora offer unique extensive high quality products of over 1.5 million stock keeping units covering fashion and cosmetics, food, home products, stationary and leisure. The product assortment offered by Adora is shown in Figure 19.



**Figure 19.** Wide and unique assortment of Adora

Source: Adora- Company PowerPoint Presentation

The main customer target group for Adora, Zomaya and Palela in the Russian market is the middle-class which has preference for quality products at reasonable price. Given the competitive retail environment in Russia, and Russian consumer's preference for quality products, the interview data suggest that Adora, Zomaya and Palela provide unique extensive high quality products to respond to Russian middle-class consumer's preference for brand and quality products. This reflected in the following quote:

“We always have wide assortment of high quality products, even wider than in Finland in key product groups at reasonable prices for target group customers (private label and other Finnish products). The key is reasonable prices, and not the cheapest prices” (Interviewee, Palela)

“We are still at least differentiating from our competitors in terms of quality and assortments. We have lots of our own private label or brands which our competitors are not having which put us in a better position against the competition. The fresh counters for example are one of our strong points in our grocery” (Interviewee, Adora).

“We should be competitive, but then the quality is the most important thing in our food department, it is part of the brand. We focus on high quality and certain products which we can differentiate from our competitors, but at the same time, we should be like the market price, and we should not over price ourselves. We are still at least differentiating from our competitors in terms of quality and assortments. We have lots of our own private label or brands which our competitors are not having. This put us in a better position against the competition. The fresh counter for example is one of our strong points in our grocery” (Interviewee, Adora).

“Our company offers only its own design garments and accessories, which are produced in different partner factories in different countries under strict quality and social responsibility norms controlled by us. The store concept supports our wide range of products” (Interviewee, Zomaya).

The evidence from the interviews indicates that unique extensive high quality products provide Adora, Zomaya and Palela differential advantage in the Russian market. The differential advantage of Adora, Zomaya and Palela is derived from unique extensive high quality product offered the firm which allows them to respond to the normative pressure of market competition and Russian middle class consumer's preference for quality products. By offering unique extensive quality products, Adora, Zomaya and Palela are able to set themselves apart from the competition, and also build a pool of loyal customers who desire wide assortment and quality. Adora operates department store concept, Zomaya operates fashion retail business, and Palela operates food retailing. Adora, Zomaya and Palela have positioned pricing firmly in the middle of the market. For instance in food retailing, prices are set higher than domestic discounters and supermarket but lower than hypermarkets and luxury ends of the market.

#### *Own warehousing and logistics system*

The interview data also indicates that subsidiaries of Finnish multinational retailers in Russia derived competitive advantage from building one warehousing and logistics system. Warehousing and logistics system here refers to retailer's efficiency in distribution and inventory management. Superior channel management is important to the success for many retailers. Superior logistics, meaning efficiency and distribution and inventory management reflects a retailer's competitive advantage in channel management. Due to lack of wholesalers and undevel-

oped retail infrastructure in Russia, Finnish retailers have to build their own warehouses and logistics systems in order to ensure timely and efficient delivery of merchandise to their stores. This retail-specific competitive advantage in channel management result in cost control, shorter procurement lead times, and consequently a more efficient response to customer needs (Vida et al. 2000). Retailers such as Wal-Mart, Carrefour and Tesco have used this type of ownership advantage.

The interview data indicate that subsidiaries of Finnish multinational retailers in Russia establish their own warehouse and logistics centre in Moscow and St. Petersburg to exploit this ownership advantage. For instance, Adora and Zomaya have own common warehouse and logistics centre in Moscow. Recently, Adora and Zomaya have implemented Enterprise Resource Planning (ERP) system to enhance efficient management of its operations. Palela has also recently completed own warehouse terminal in St. Petersburg. Furthermore, in an effort to control the distribution channel, Palela's parent company has acquired the Finnish logistic company, Inex Partner Oy to handle warehousing and transportation issues in Russia. By identifying where to find synergies within the supply chain, and how to leverage them, Adora, Zomaya and Palela created competitive advantage relative to competitors, resulting superior performance. The underdeveloped state of the distribution system in Russia is considered by Adora, Zomaya and Palela as an important factor affecting their operational activities. Establishing own warehouse and logistics system has therefore enabled Adora, Zomaya and Palela to respond to the normative pressure of undeveloped retail infrastructure in Russia, and also to take total control of the distribution process themselves through centralisation. This is reflected in the following quotes.

“We try to centralise our buying and we are trying to construct or operate a terminal at the moment. We have centralised delivery through Inex Partners Oy and we have strict control. It has been a political decision. At the moment, we have 450 suppliers and the main reason for this is securing availability and the absence of real wholesale operations in Russia market. It is very difficult to manage hundreds of import contracts so we decided to have everything going though Inex Partners Oy” (Interviewee, Palela).

“We do import the goods ourselves, and then deliver them to our central warehouse in Moscow, and then deliver them to our department stores. This is our basic logistic structure, how the goods are moving here in Russia. It is the question of efficiency that we have basically chain buying and we are able to maintain the departmental store concept” (Interviewee, Adora).

The evidence from the interview data indicate that Finnish multinational retailer respond to normative pressure of undeveloped distribution channel in Russia by

building their own warehouse and logistics systems. Common warehousing and centralisation of logistics systems by Adora, Zomaya and Palela help to overcome the risk of underdeveloped distribution channel and lack of wholesalers in Russia's market. This finding is consistent with Vida et al.(2000) found that retail logistics advantage, which refers to retailer's efficiency in distribution and inventory management as appropriately indicated by the retailer's relationships with suppliers and distributors, use of technology, and retail management leads to cost minimization, shorter procurement lead times, and consequently a more effective response to customer needs. Finnish retailers in Russia have used this competitive position to their advantage in the home market and in international markets. The finding supports Vida et al. (2000:52) statement that "given the often complex nature of distribution systems in international markets, it is not surprising that the ability to deal with logistics is a core skill necessary for success". Similarly, Chan et al. (2011:1010) noted that "other advantages of retail chains can include common warehousing and real estate knowledge."

#### *Own purchasing offices and designers*

Own purchasing offices provides a unique method of channel management by vertical integration or strategic partnership of design, production, and purchasing leading to enhanced supply chain flexibility and speed. A key problem faced by retailers is balancing demand and supply. Estimating consumer demand can be problematic because some products such as fashion products change frequently; and some products are seasonal products. Moreover, retailers depend on suppliers and manufacturers for product availability. There are many factors that may affect the manufacturer's inability to supply the product needed by the retailer. Park and Sternquist (2008:286) noted that "particularly, in the apparel retail sector, fast and more flexible supply chains promise a number of competitive advantages over rivals because fashion products become obsolete rapidly."

In order to respond to the normative pressure of demand and supply uncertainty, Adora and Zomaya established own purchasing offices close to production facilities that make the clothes for the fashion chains. Merchandising and foreign purchasing/sourcing is a centralised activity of Adora, Zomaya and Palela and operates under the control of the parent company, thus, separated from the strategic decision making of the individual subsidiaries in Russia. A major strength of Adora and Zomaya whose business area involve fashion retailing is common purchasing offices. The purchasing offices work closely with about 569 factories operated by 250 goods suppliers located in Hong Kong, India, Bangladesh, Pakistan and Turkey.

Being close to the production factories enables the purchasing offices to know exactly what is going on in the factories, and also to address supply problems that may occur. Hubner et al. (2013) noted that the main objective of retail is to close the gap between the point of production and the point of sale. For instance, a manager commented: [...] “as we know exactly what is going on in the factories, it is easier for us to carry our corporate social responsibility. [...] Close ties with suppliers also help in planning of production and help us make better use of local expertise” (Director of Purchasing Offices, ADORA Annual Report, 2012, p.17). The purchasing offices work in close cooperation with designers and buyers to produce the collections for the stores Adora and Zomaya. By having own purchasing offices, the fashion chains can be close to production facilities, which provide them with multiple competitive advantages. This illustrated in the following quote:

The work of the designers is closely integrated with the production process from the start. Cooperation between designers and buyers is also important. Buyers determine the retail prices for the products and the size of the orders. It is then the task of the purchasing offices to make the production arrangements (Director of the purchasing offices, ADORA Annual Report 2012).

The new buying organisation is able to concentrate on optimal allocation, right pricing and interesting product mix in existing units. This supports the volume growth and leads to healthy gross margin levels. With cost control and improving gross margins, relatively smaller volume increases leads to significant profit improvements (Director of department store division, ADORS Annual Report 2012).

“The purchasing offices select the factory, using such factors as the price, available capacity and the expertise possessed by the plant as criteria.” The country of production is often selected during the early stages of the design process, when the product development staffs make suggestions for materials. Different countries have their own strengths. India has special expertise in manufacturing jeans. Bangladesh is well-suited for making volume products, such as cotton t-shirt, while the Chinese are good at turning out products that require precision, such as bras. Turkey has the best location for making products that have to be put to market quickly” (Director of the purchasing offices, ADORA Annual Report 2012).

“Due to well-planned buying there was a slight improvement in the department store division’s gross margin, which was 41.9 percent. Stock rotation remained at a good level in all markets, also in Russia, where a new logistics centre opened in 2011 and has made logistics process more efficient,” (ADORA Annual Report, 2012, p.13).



The enhancement of our buying and planning operations has already had a positive impact on our results. "The merchandise management and buyers visit the department store regularly" (Director of department store, ADORA Annual Report, 2012, p. 13).

Finnish multinational retailers also have own team of designer who design the collections for the fashion chains. Adora and Zomaya has own team of professional designers who work in close cooperation with the purchasing offices and production factories. By having own team of designer provide Adora and Zomaya the competitive advantage of being able to speed up production to the market. Transforming an idea into a commercial product may take up to a year, but sometimes the process only takes between six months and eight weeks. Adora and Zomaya together have about 50 designers who study trends and sketch the first ideas. After the ideas have been put on paper, the product development staffs in the purchasing offices examine different materials and draw up a list of options suitable for the product. The advantage of own designer is reflected in the following quotes:

"We have 20 designers, and all our collections are designed by our own 20 designers. Most of them have been working with the company for a long time and they already know the history of the company and the major needs of the company" (Interviewee, Zomaya).

"By far, the biggest factor impacting the profit is the attractiveness of the collections. The store must have the right products at the right time- the products which the consumers are prepared to pay the full price for. This is achieved through seamless cooperation between the designers, the buyers and the purchasing offices. This is one of the main competitive advantages of the Fashion Chain Division," (Director of purchasing offices, ADORA Annual Report 2012).

"Close co-operation between the purchasing offices and designers means higher profitability. Close relations with goods suppliers provide an important competitive advantage." (Director of purchasing office, ADORA Annual Report, 2012:18-19).

The evidence indicates that establishing own purchasing offices close to suppliers and working in cooperation with own designers offer Adora and Zomaya competitive advantages. Efficient and skilled buying is the key success factor in managing this extensive selection of Adora and Zomaya. Designing collections is brand-specific, thus, Zomaya and Adora's own private brands have own team of designers who design collections for specific target groups, and with distinct features. At

the same time, the purchasing offices make use of the benefits arising from the size of the group and the synergy it creates.

The parent company of Adora and Zomaya introduced a new buyer-planner organisation model in 2012. The new model is based on an arrangement where the buyer is responsible for understanding customer wishes and trends, and for finding commercially, attractive products for the selections. The purchasing planner sees to the buying budget, inventory management, and allocation of the products between the different department stores, channels and countries. In short, the buyer and planner purchase the brands under their responsibility for the entire fashion chain. The structure the parent company of Adora and Zomaya offer the advantage of shared resources which strengthens the firm's operation by better use of best resources. Good experiences from joint purchasing offices, warehousing and logistics services, finance, information technology, enterprise resource planning (ERP) system and human resource leads to savings in operations costs, which improves profitability.

The findings is consistent with Park and Sternquist (2008) which claimed that superior supply chain management brings competitive advantages such as greater product innovation, responsiveness to actual customer demands, and reduce fashion risk resulting from shorter lead times to market. The finding also supports Park and Sternquist (2008) assertion that the ability to take cost out of the supply chain provides the opportunity for gross profit and margin improvement and or pricing advantage. Adora and Zomaya eliminated costs related to dealing with wholesalers and delays in design and production by establishing own purchasing offices. This is in line with Park and Sternquist (2008:286) asserted that "effective supply chain management also leads to a lower-cost business model mainly attributable to direct sourcing and superior inventory management."

#### *Store location differential advantage*

Store location ensures steady flow of customer traffic and thus provide a retailer competitive advantage over its rivals. Store location ensures the right customer profile is being reached and also that the "right" statement is being made about the brand (Allegra Strategies 2005; Dalton 2005). By entering into long-term lease or acquiring property/buildings at prime retail location offer the retailer the advantage to lockout potential late entrants from good real estate options (Pelligri 1994). Accordingly, late entrants would have to spend more time and money and efforts relative to the first entrant to compete well. Good relationship with landlords or partnership with real estate developers also ensures the retailer access to confidential information about upcoming real estate availability. The interview data suggest that strategic choice for store location and network expansion pur-

sued by Adora, Zomaya and Palela were strongly influenced by Russian consumer's orientation towards convenience shopping. Because majority of Russians do not own a car, people seek stores located in their neighbourhood or in central locations such as in the city centre, or locations with easy access by public transport. Thus, a retailer with store in prime locations such as in the city centre near metro stations, or near bus stations has great advantage to compete effectively. Interviewees agree that one of the competitive advantage and key to success in the Russian market is good store location with steady customer traffic. This is reflected in the following quotes:

“Adora’s department store in St Petersburg is located on the corner of the major roads Nevsky Prospect and Ligovsky Avenue. Every day, over 200,000 cars use these roads and 84,000 people use the neighbouring Vostaniya Square metro station. The prime location ensures a steady flow of customers” (Interviewee, Adora).

“The first thing customers consider is the central location of the shop and variety of assortments. The city is big so if you are located at national routes where people don’t go, then you are on your own, so location is very important as in anywhere in the world” (Interviewee, Palela).

“Our key to success is reliable partner [landlord] with steady customer flow. In Russia is quite a big challenge to get a very loyal landlord and to get quite a good rent ratio, so we try to get reliable partner with steady/strategic customer flow. We try to look for shopping centres where good customer flow is provided for us because we are working with fashion” (Interviewee, Zomaya).

“It is quite obvious that we are located in the city centre so we have visitor flow quite equal on week days and it gets higher on weekends. This is quite beneficial to our food department. And if we think about local competition here in St. Petersburg, our food department is basically, the only let us say such size of food department and all the other grocery stores are located in 5 to 20 kilometres out of the city centre. This is related to the location of the stores” (Interviewee, Adora).

“Good locations, when it came to St. Petersburg, all the shopping centres were just starting to be built so it was not difficult to find good location for our stores. Consequently, all our stores have better locations compared to our competitors who are now in the market. Now it is already much difficult to get good location because the rent is quite high. But here in St. Petersburg and Moscow, we are ok; we can manage” (Interviewee, Zomaya).

The evidence from the interviews suggests that Finnish multinational retailers’ choice for store location in Russia is influenced by Russian consumers’ orientation towards convenience shopping. Therefore, retailers with stores at prime retail

location gain competitive advantage over rivals. The rationale for stores being located in the city centre near metro stations and bus stations, or neighbourhoods or ring areas with easy access by public transportation is the need to attract new customers, and to maintain dedicated loyal customer base. This rationale is also attributed to Russian consumer's strong preference for stores within close proximity and within a walking distance, or in location with easy access by public transport. This finding is consistent with the study by Roberts (2005:56-57) who noted that since more than 50 per cent of Russian still do not own a car, and therefore uses the public transport systems, store location becomes critical in cities like Moscow and St. Petersburg.

Overall, evidence from the interview data suggests that: *unique retail concept with private label, unique extensive high quality products, own warehousing and logistics system, own purchasing offices, and store location* are some of the dimensions on which subsidiaries of Finnish multinational retailers in Russia differentiate themselves from their competitors. This finding is consistent with previous research (Dawson 1994; Picot-Coupe 2006; Park & Sternquist 2008; Porter 1980; Vida 2000) which found that among the key factors on which retailers differentiated their offerings from competitors are product quality, product offerings and assortment, brand and unique concepts, private label products of high quality, retail technology, distribution and logistics advantages, and service and store atmosphere. The finding also supports Hooley, Saunders and Piercy (1998) assertion that differential retailer advantages are critical success factors which determine a firm's international competitiveness, profit and performance. Previous researches show that the availability of a differential advantage is important in promoting retailer's international expansion into foreign markets (Vida 2000; Vida et al. 2000; Siebers 2011).

#### 6.8.2. *Decision maker's characteristics*

In addition to firm characteristic, two key factors emerged from the interview data indicative of decision maker's characteristics that influence retailers' strategic response choices to institutional pressures and performance. These factors are: *experiential institutional knowledge, and managers' attitude and perception of risk*

##### *Experiential institutional knowledge*

Experiential knowledge represents accumulated hands-on skills or experience that allows managers to operate effectively and efficiently (Von Hippel 1988; cited in Chan et al. 2011). Experiential knowledge, another key determinant of retailer's

international involvement is emphasized in the dynamic internationalisation model (Vida & Fairhurst 1998). Internationalisation theory suggests that a firm's lack of experience in a foreign market creates uncertainty and should limit its' resource commitment in the market (Blomstermo et al. 2006; cited in Lu et al. 2011). The retail internationalisation process involves risk and the investment of resources. Thus, the issue of the effects of the critical experiential knowledge on the cost of the internationalisation process becomes even more important in unstable emerging markets context such as Russia.

Retail firms acquire experiential knowledge by learning on the job. Experiential knowledge not only produces a reduction of the risks involved in expansion abroad, but also provides the means for acquiring knowledge of internal and external resources and opportunities for combining them (Eriksson et al. 1997). Experiential knowledge is country-specific and cannot be transferred between firms or business units (Eriksson et al. (1997:340). Some firms must internationalise on their own and spend resources on finding and exploiting the business opportunities in the foreign market (Eriksson et al. 1997). Eriksson et al. (1997) mentioned that the internationalisation model rest on the assumption of imperfect knowledge on the part of the decision makers in the internationalisation process. This lack of knowledge relates to the institutions to be found in the host markets, host governments and bureaucracies, and the ways in which these work (Eriksson et al. 1997). Eriksson et al. (1997) refers to *institutional knowledge* as "experiential knowledge of government, institutional framework, rules, norms and values" (Eriksson et al. 1997:343). It is not only important to have knowledge of what statute-books dictates, but also how the law is used in practice at a given time by a particular government agency (Eriksson et al. (1997). Thus, institutional knowledge may be related to issues that deal with import and export of goods and services, tariffs, local taxes, general conditions in the host market, as well as related problems and opportunities (Eriksson et al. 1997).

The analysis of the interview data (see Figure 7 in section 6.2) indicates that subsidiaries of Finnish multinational retailers faced three types of institutional pressures namely unstable regulatory environment, bureaucracy, and customs control. The Russian business environment is unstable and there is change in legislations all the time. In addition there is high bureaucracy in terms of administrative paper work which means substance is less important than document format. Furthermore, customs control present major problems regarding import and export of goods. Tax on imported goods into Russia is very high and there are several forms to be filled regarding customs clearance, which often results in several days of delays at the border crossing. This is reflected in the following quotes:

“Basically the customs and border control is the most risky part. For example, if there are some documents missing or mistakes in the documents, you might get stacked at the border and your delivery would be delayed. We have to be very careful with the documentation, if there is a small mistake in the delivery document then it will be stacked at the border” (Interviewee, Adora).

“The challenge for us is custom clearance which is not easy in this country, [Russia] and it has been made complicated, so it has its challenges” (Interviewee, Palela).

“Customs regulations, rental level, high bureaucracy level resulting in different unnecessary but obligatory fees, which don’t take place in other countries is a problem” (Interviewee, Zomaya).

“There exist quite different legislations and bureaucracy. And in legislation, it is basically that they are unpredictable, and there is always new laws and new restriction coming and going all the time, and that is quite a big challenge operating here in Russia. Documentation still plays an important factor in all operations, regardless of business area” (Interviewee, Adora).

Given the challenges presented by the unstable regulatory, bureaucratic and customs control requirement, international retailer in Russia must gain experiential institutional knowledge about how to handle these issues. In other words, the retailer must have experiential institutional knowledge regarding how to cope with the unstable regulatory environment, bureaucracy and customs control issues (i.e. export of goods and services) in Russia. Application of experiential institutional knowledge in is reflected in the following quotes:

“The fact is that we have been doing this [importing goods into Russia] quite so long already means that we know the critical parts of importing goods. There are certain risks with the delivery time, but in real life at the moment, we are not having such problems with delivery time. And of course when we have the history and knowledge of importing goods to Russia starting from mid 1980s, at that time when we were delivering goods already to Moscow from our export service unit in Helsinki departmental store to diplomats in Moscow, it make sense to take care of this process ourselves. We have been in Russia since the Soviet Union era, so we have been living this development of Russia. We are not using external expertise, but we are suing internal expertise and the knowledge inside the group” (Interviewee, Adora).

“Basically, the local knowledge is the key to predicting changes in legislations. Our history here in Russia helps that we can predict certain issues which are happening here and legislation as well” (Interviewee, Adora).

“We have good experience of working in the Russian market since 2004. We pay attention to local market specifics and constantly adapt our actions towards the reality of the market” (Interviewee, Zomaya).

When management at hand does not possess adequate institutional knowledge about the host market, it hires new managerial talent experienced in international business, or seeks help from experts or consulting firms that can provide such expertise. For example, Palela entered the Russian market in 2008, and does not have any prior experience in operating in the Russian market, thus, have to seek the assistance of external experts. This reflected in the following quotes:

“We hire a consultant, we hire a legal counsel. That is somebody goes around the offices and collects the relevant papers require for establishing the company. Establishing a company is very easy. The main thing is the company chatter. It is just bureaucracy, there is nothing there” (Interviewee, Palela).

“The main rules of how a Finnish supplier can get their products into our assortment in St. Petersburg are the following: product is included in assortment of local dealer; product is included in assortment of Inex Partners; Palela does not sign direct purchase contract with Finnish suppliers (customs clearing and logistics is centralised in Inex Partners Export); and product is certified and the package has Russian labels and packaging markings according to Russian legislation” (Interviewee, Palela).

The evidence from the interview data suggest that experience in operating in foreign markets helps the retail to response to institutional pressures. Lack of experiential institutional knowledge is an obstacle, as it is difficult for the international retailer to gain adequate understanding of the technical and commercial laws and norms that apply in the foreign market. The evidence from the interview data suggests that knowledge of institutional issues can be a source of advantage (Eriksson et al. 1997). Knowledge of local institutional norms and laws lowers the cost involved in internationalisation. This finding is consistent with Eriksson et al. (1997:352) which shows that “in the process of internationalising, firms have to seek experiential knowledge on individual clients and markets, as well as on institutional factors such as local laws, local governments and local cultures.” This information is gathered through activities abroad and through presence in the foreign market. The finding is also in line with Vida et al. (2000) which suggest that

experience can be acquired through direct involvement in retail management or from the merchandising side of the business in sourcing internationally.

#### *Managers' attitude and perception of risks*

A major risk to overall profitability of foreign retailers in Russia is the uncertainty in the institutional environment, which is reflected in country risk factors that include transparency and stability of the political, legal, financial and regulatory systems. Business environment risks, meaning risks factors that are external to the firm may considerably affect the company's scope of operations and profitability if they materialise. The business risks in Russia are greater than in the Nordic countries or the Baltic countries, and the operation environment is less stable owing to factors such as the underdeveloped state of business culture and the country's infrastructure. The role of the grey economy, particularly in the importation of consumer goods, is still significant and plays a considerable role in distorting competition. Russia's membership of the WTO would probably bring more clarity to the competition environment, for example through reduction in excise duties. The current crisis in Ukraine is likely to have major impact on Russia's economy and on businesses should more economic sanctions be imposed on Russia. The impact on energy prices will have significant impact on the development of the Russian economy in the next few years as well.

The importance of top management attitude in dictating international expansion have been supported by previous research (Cavusgil & Nevin 1981; Rosson and Reid 1987; Vada et al. 2000) which show the need for a positive managerial attitude towards internationalisation in terms of perceived risks, opportunities, and cost of such venture. For instance, Cavusgil (1984:8) claims that "managers tend to form their expectations about profitability, riskiness, and costliness of exporting based upon their own and/or other firm's experiences." Vada et al. (2000) refers to the concept of management attitudes as "the decision maker's subjective evaluation of problems and opportunities associated with retail internationalisation." Managers must therefore constantly weigh these risks against the potential opportunities that can be achieved. Management attitude towards risk and opportunities in the Russian market is reflected in the following quote:

"There is a lot of bureaucracy and legislations here in Russia which makes things more challenging and in our opinion, the only way that you can succeed is to follow the legislation and bureaucracy and learn to do it and then implement your own concepts" (Interviewee, Adora).



“Going back to the late 1980s, we realised that long-term growth opportunities for department stores is no longer in Finland because of the small market. We also realise that the profitability of department store operations demand a population of 250 000 in the catchment area. Internationalisation then became the only option, but how? So we face the question of where do we expand? This was the issue we discussed in the 1980s quite a lot” (Interviewee, Adora).

“The retail market in Russia is very big and the retail market of St. Petersburg amounted in 2010 approximately to 17.4 billion euros, of which daily goods are 50%. The market growth will continue in the near future as the income of the population increases 5-10 % yearly. The Russian market represents a potential growth for Finnish retailers because the market is very big. Approximately, 10-15 of the population belongs to the middle class, whose purchasing power is on the so called European level. The share of middle class in the population continues to grow” (Interviewee, Palela).

“The international expansion was basically a coincidence or an accident. Gorbachev’s rise to power (perestroika, glasnost) created the possibility to open own permanent department stores in Russia. This gave us the opportunity to start different businesses in Russia as well. The first store was opened in Moscow in 1989, so it was built in the Soviet Union time. This was a small grocery store opened in the city centre of Moscow, and the business was a bit different then compared to the present time. The first departmental store was opened in 1998, and this marked the beginning of our expansion to Russia” (Interviewee, Adora).

The firm’s decision making structure is also vital when determining the extent to which the host institutional environment differs from the home market. The interview data indicates that subsidiaries of Finnish multinational retailers recognise the importance of utilizing local management when determining retailing strategy in Russia. The country manager for Zomaya is Russian and so are all the other divisional managers. The country manager for Palela is a Finn but have been living and working in Russia for the past 25 years, and was responsible for establishing the Russian subsidiaries from the scratch. Palela has five other managers who are all Russians. For instance, the country manager for Palela commented:

“I have been living in St. Pete for twenty four years now and I have seen a lot of things here compared to your generation. The St. Petersburg Palela chain entered the market in 2008, so basically we have been in operation for over 5 years now and I came as part of the team at the very beginning. The first store was open in June 2008. We started operation from zero in April 2008, and basically set up the management team; we certificate the products, got the custom clearance, government permission, job listings, and personnel, set up purchasing and got 3300 contracts. But it was twelve

hours, seven days a week for three months. So it is double but you really need to work” (Interviewee, Palela).

The country manager for Adora is also a Finn, but all the other managers are Russian. Adora has about ten departments within its department store. Each department is headed by Russian managers with retailing experience. The Russian managers for Adora, Zomaya and Palela have all received training from the parent company in Finland. At the moment, Adora, Zomaya and Palela have no expatriate staff from the headquarters in Finland working in the Russian subsidiaries. Decentralised structure of decision making is adopted in the Russian subsidiaries whereby local managers have the latitude to make decisions. Decentralised structure of decision making thus reduces the perceived psychic distance between the home market and the Russian market. Decentralised decision making also reduces the potential negative effect of cultural and business differences on strategic response choices and performance. This is attributed to the fact that local managers are able to have better understanding of retail laws and regulations and consumer taste and preferences, and shopping habits because of the knowledge and experience of management located in the Russian market. This is reflected in the following quote:

“What we have learned is that we should have strong local management and local staff. We learned that we are not able to run our operations here using Finnish experts. International business cannot be managed by remote control. We have to have a strong local management that is committed to our company’s values and principles that we have in Finland. We have department store director in every department store. Then we have sales managers. For example, here we have basically one sales manager per every floor, and then we have department managers inside those sales groups. We have three levels of management – directors, sales managers, and department managers” (Interviewee, Adora).

“What is really important is to have strong local management that understand the company’s values and culture. We have to have a strong local management that is committed to our company’s values and principles that we have in Finland” (Interviewee, Adora).

Evidence from the interview data indicate that top management of Finnish multinational retailers view Russia as having many risks, but at the same time aware of the huge opportunities it presents in terms of untapped retail market with fast growing middle class consumers. In other words, management’s expression of positive and optimism in regards to the obstacles and rewards associated with international expansion. The findings indicate that management has favourable perception with regards to the complexity and potential obstacles and benefits of

international expansion into the Russian market. The finding is consistent with Vida et al. (2000:54) assertion that “because managerial perceptions guide decision making, it is doubtful that decisions for growth in nondomestic markets will not be made unless management exhibits positive views with respect to opportunities and potential barriers involved in international expansion.” This finding also seem consistent with the view expressed by Vida et al. (2000) that internationalisation is a knowledge –creation process, which comprises learning about not only the competitive environment and foreign markets but also the firm’s internal resources and its capabilities when it faced new business conditions. The measurement of the management attitudes construct of Vida and et al. (2000) included measures related to the strategic team’s perception regarding cross-cultural complexity, costs, risks, and returns involved in the international expansion of retail firms.

## 7 CONCLUSIONS AND DISCUSSIONS

In this chapter the discussion and conclusion of the study will be covered. First, the summary and findings of the study will be presented. Second, the theoretical and empirical contribution of the study will be provided. Third, managerial implications will be offered. Fourth, the limitations of the study will be pointed out. Finally, direction for future studies will be offered.

### 7.1 Summary and findings of the study

An increase in the internationalisation of retail firms into emerging markets appear to be one of the most significant trends in today's business environment. An increasing number of retailers from Western Europe realised that international expansion not only represent an opportunity to achieve more growth but may become a necessity when the international competition becomes strong in the domestic market. With many retailers facing challenging economic conditions in their home markets, there has been clear motivation to look for growth opportunities overseas in countries with stronger economic conditions and growth prospects. This has been particularly evident in Russia where the incursion of foreign retailers over the past ten years has been significant and looks set to continue. While showing an increasing interest in international expansion, many retailers consider the establishment of store networks in foreign markets a troublesome issue because, retailers' expansion to foreign markets leads to the transfer of retail management technology or the establishment of international trading relationships across regulatory, economic, social, and cultural boundaries. Academic interest in retail internationalisation has increased in recent years, and studies have suggested that retailer practices and structures are affected by pressures from their institutional environment.

However, previous theoretical models were inadequate in addressing the complexities involved in the retail internationalisation process in post-entry. Previous conceptual frameworks fall short of providing a deeper understanding on post-internationalisation issues such as international retailers' strategic responses to institutional environment in an emerging market. There is also empirical and theoretical gap about research applying institutional theory in international business. Often, studies that have applied institutional theory in international business research have devoted limited attention to the role of interest and agency and how firms can proactively response to pressures from the institutional environment. Thus far, theoretical and empirical research in retail internationalisation aimed at increased understanding of the institutional environment devoted less attention to

field-level institutional pressures as interplay of organisational characteristics and strategic responses of international retailers has left some gaps to be filled. It is important for managers to understand how the interplay of the institutional environment and organisational characteristics influence the uniqueness of retailers' strategic responses to the institutional environment in an emerging market of Russia.

To fill the above-mentioned conceptual, theoretical and empirical gap, three theoretical frameworks were considered: Scott (1995, 2001) three pillars of institutions- regulatory, normative, and cognitive; Vida and Fairhurst's (1998) framework of organisational characteristics and Oliver's (1991) five typology of strategic responses to institutional processes. This study adopts the view that firm characteristics and decision-makers' (managers) characteristics affect how international retailers perceive pressures from the institutional environment, and how they decide to respond to them. The present study empirically investigates the institutional environment of Russia in the context of retailing, and strategic response choices for subsidiaries of Finnish multinational retailers to respond to regulatory, normative and cognitive pressures. This leads to the research questions of the study which are: (1) *What are the strategic choices for the multinational retailer to respond to regulatory, normative, and cognitive pressures from institutional environment in an emerging market?* (2) *How and why did firms' characteristics and decision-makers' characteristics influence retailers' strategic responses to institutional pressures?* (3) *What are the factors in the context of international retailing that influence the strategies and performance of multinational retailers in Russia's market?*

Chapter one discusses the background of the study and set forth the research gap, the research purpose, research question and objective of the study. Next, the chapter provides an argument for the international retailer as an object of the study. The chapter then discusses the theoretical positioning of the study, key concepts and the structure of the study.

Chapter two presented the first part of the literature review which forms part of the theoretical background of the study. This chapter started by defining international retailing and explore the relevant literature on different aspects of retail internationalization to gain better understanding of potential success for international retail expansion. The chapter continues with review of the literature on retail internationalization and highlights the main theoretical frameworks developed to explain retail internationalisation phenomenon. Finally, the chapter discusses internal competences of the firm that need to be considered in the retail internationalisation process.

Chapter three provided the second part of the literature review for this study and introduces institutional theory as a framework to address the international retail expansion process. This chapter discusses institutional environment, institutional norms of retailing and institutional pressures along the dimensions of regulatory, normative, and cognitive institutions in the context of international retailing. This chapter also discusses strategic responses to institutional processes, legitimacy and performance in relation to international retailing. Based on the extent of theoretical and empirical literature, a conceptual model was developed for the empirical study.

Chapter four presented the methodological choice and philosophical stance of the study. This chapter provides a discussion of the research strategy, research approach, case selection, data collection methods, and evaluation of the research design. The case selection was guided by the principle of purposeful sampling and the underlining need for a theory-driven selection of cases along with a consideration of contextual characteristics. Evidence for the study was collected from primary and secondary sources and interpreted from a critical realist philosophical perspective.

Chapter five presented the first part of the empirical analysis of the study. It provides overview of the economic and business environment of Russia, and a description the retail sector, main retail formats, and major players in the market. The chapter ends with a description of the background of the case companies for the empirical analysis.

Chapter six presented the empirical findings of the study. It provides cross-case analysis of the interviews in relation to the institutional environment of Russia and the pressures it exert on subsidiaries of Finnish multinational retailers, and the strategic response choices they pursue in response to these pressures. This chapter provides detail analysis of the interview data along the dimensions of regulatory, normative, and cognitive institutions and identified regulatory, normative, and cognitive pressures in the context of retailing in Russia. The chapter also identified strategic response choices subsidiaries of Finnish multinational retailers pursue in response to regulatory, normative, and cognitive pressures. The chapter further provides analysis of factors that influence the legitimacy and performance subsidiaries of Finnish multinational retailers in Russia. Finally, the chapter ends with analysis of internal organisational factors and identify firm and decision maker's characteristics that influence subsidiaries of Finnish multinational retailers' strategic responses to regulatory, normative, and cognitive pressures.

Chapter seven presents discussion and conclusion of the study. This study applied the conceptual model developed for the empirical study in Figure 3 to investigate empirically the three research questions of the study.

The findings of the study suggest that subsidiaries of Finnish multinational retailers in Russia do not passively conform to pressures from the institutional environment. Rather, retailers have some option to proactively employ a range of strategic response choices in response to institutional pressures emanating from the host institutional environment. *The key findings of this study revealed that subsidiaries of Finnish multinational retailers employ four different strategic response choices namely: (a) compliance to the environment; (b) selection of the environment; (c) creation of the environment; and (d) cooperation with the environment to respond to three types of institutional pressures- regulatory, normative, and cognitive.* The only exception is creation and cooperation strategy in response to regulatory institutions, and compliance and cooperation strategy in response to cognitive institutions. *Cooperation with the environment is a new strategic response choice identified by the author of this study as emerging from the interview data.*

In addition, the findings of the study suggest that the four strategic response choices require increasing levels of efforts for implementation and thus may be useful under different circumstances. This study indicates that performance of international retailers from developed market economies operating in Russia depends not only on host institutional environment factors, but also on the internal organisational characteristics of the firm and its strategic response choices. The results of the study further suggest that the four generic strategies employed in response to pressures from the institutional environment can be divided by three different implementation approaches available based on the three institutional pillars – regulatory, normative, and cognitive.

Regarding compliance to the environment, the findings of this study suggest that subsidiaries of Finnish multinational retailers in Russia face a number of institutional pressures which influence strategic responses choices and performance. The regulatory environment exerts three types of institutional pressures on retailers namely: unstable regulatory environment, bureaucracy, and customs control. In responding to these pressures, subsidiaries of Finnish multinational retailers apply experiential institutional knowledge. Where the retailer lacked institutional knowledge to handle the bureaucracy related to company establishment and customs control issues involving importation of goods to Russia, it seeks the services of third parties such lawyers and logistics companies who possesses such experiential institutional knowledge.

The normative environment exerts three types of institutional pressures namely: consumer taste and preference, consumer shopping habits and convenience shopping behaviour. In responding to these pressures, subsidiaries of Finnish multinational retailers apply two strategies namely: assortment adaptation and store location adaptation. Due to dissimilarities in consumer taste and preferences and shopping habits, products assortments are adapted by providing wide assortments in the Russian market than in Finland. Store location is also adapted by locating store in the city centre, residential areas, and locations close to, or accessible by public transport. Store location in the city centre and at locations close to metro stations and location with easy access by public transport is important because majority of Russians do not own a car.

About selecting the environment, the findings of the study show that favourable laws regarding retail FDI offer Finnish multinational retailers the flexibility to choose a wholly owned subsidiary entry mode. Due to less restriction on retail FDI, retailers are pragmatic in selection the choice of entry mode. Concerning the selection of the normative environment, the findings show that subsidiaries of Finnish multinational retailers face four types of institutional pressures which influence their strategy and performance in Russia's market. These are: merchandise price, marketing communication medium, merchandise quality, and market competition. In responding to these pressures, the findings show that Finnish multinational retailers select the strategy of standardisation/adaptation and differentiation. The strategy of standardisation/adaptation is used in response to marketing communication medium and merchandise price pressures. Whiles the strategy of differentiation is selected in response to merchandise quality and market competition pressures.

Concerning creation of the environment, the findings of this study show that the normative environment exerts four types of pressures which influence the strategies and performance of subsidiaries of Finnish multinational retailers in Russia. These are: local retail talent, Russian management style, profit growth and undeveloped distribution channel. In responding to these pressures, the findings show that Finnish multinational retailers apply four strategies namely: cultivating corporate culture/value, long-term resource commitment, and centralisation of distribution/logistics. The strategy of cultivating corporate culture/value is used in response to local retail talent and Russian management style pressures. In addition, the strategy of long-term resource commitment is applied in response to the pressure of profit growth, while the strategy of centralisation of logistics is used in response to undeveloped distribution channel pressure.



About creation of cognitive environment, the findings show that retailers face the pressure of creating the relevant retail format/concepts that will fit the cognitive norms of retailing in the Russia. In responding to the pressure of creating relevant retail format/concept, the findings of this study show that subsidiaries of Finnish multinational retailers apply the strategy of standardisation. In others words, Finnish multinational retailers standardise their retail format/concepts in the Russian market.

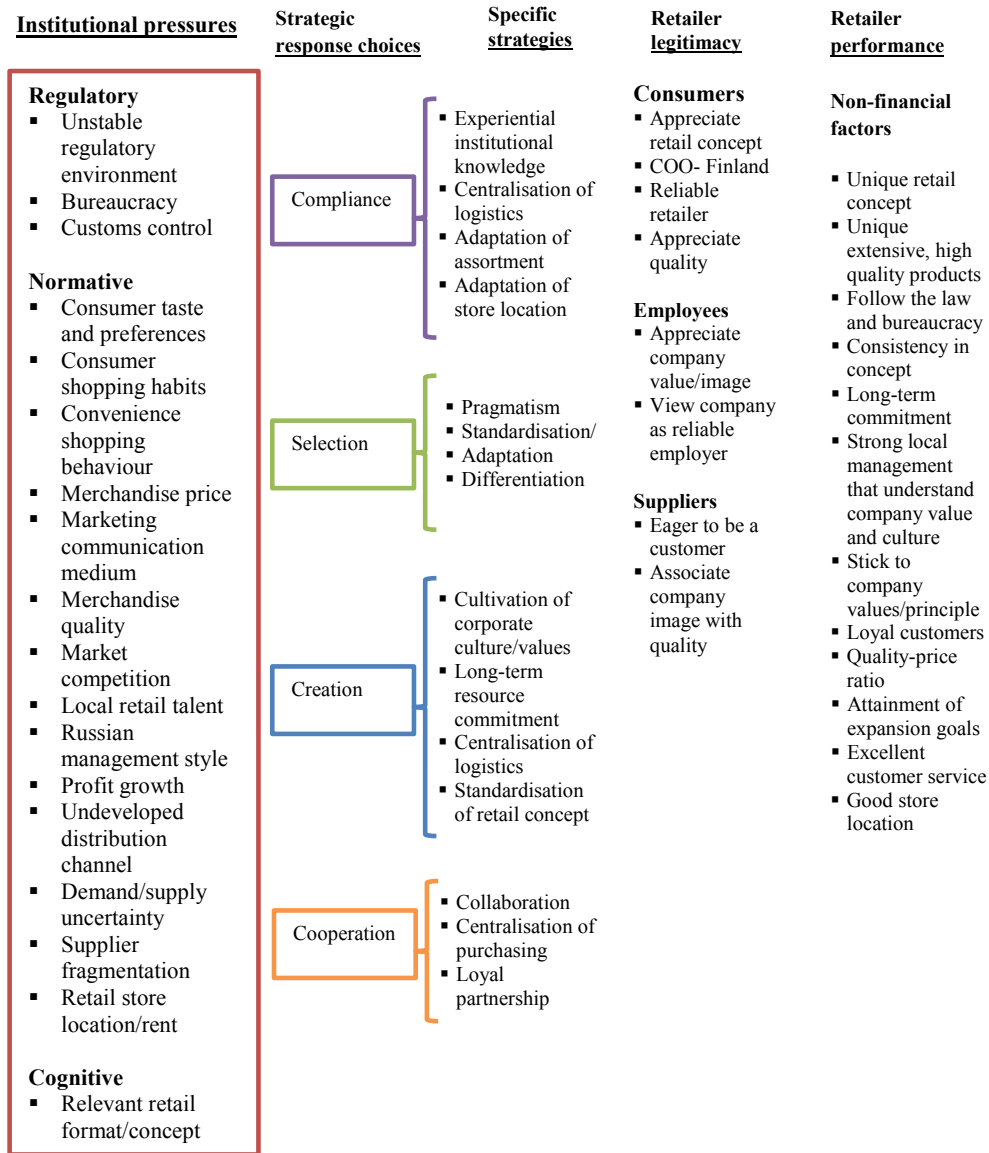
In respect of cooperation with the environment, the findings show that the normative environment exerts three types of pressures which influence the strategies and performance of subsidiaries of Finnish multinational retailers in Russia. This include: demand/supply uncertainty, supplier fragmentation, and retail store location/ rent. In responding to these pressures, the findings show that subsidiaries of Finnish multinational retailers apply the strategy of collaboration, centralisation, and loyal partnership. The strategy of collaboration is used in response to demand/supply uncertainty pressures, while the strategy of centralisation of purchasing is used in response to supplier fragmentation pressure. In addition, the strategy of loyal partnership is used in response to retail store location and rent pressure.

About retailer legitimacy, the findings show that subsidiaries of Finnish multinational retailers in Russia gain normative and cognitive legitimacy from three types of social actors namely: customers, employees, and suppliers. The finding show that subsidiaries of Finnish multinational retailers acquire normative and cognitive legitimacy by adhering to economic norms of retailing relevant to consumers, employees and suppliers by providing unique retail concept, high quality products, and being a reliable employer and a retailer with an image of good quality.

Concerning performance of subsidiaries of Finnish multinational retailers in Russia, the factors that determine success/performance include: unique retail concept, unique extensive high quality products, following the legislation and bureaucracy, consistent retail concept, strong local management, company core values/principle, loyal customers, excellent customers service, and good store location.

With regards to firms' characteristics and decision-makers' characteristics, the findings of the study show that long-term resource commitment, corporate culture/value, and differential advantages (unique retail concept with private label, unique extensive high quality products, own warehousing and logistics system, own purchasing offices, and store location) influence retailers' strategic responses to institutional pressures and performance in Russia. About decision maker's characteristics, the findings of the study show that experiential institutional

knowledge, and managers’ attitude and perception of risk influence retailers’ strategic responses to institutional pressures and performance in Russia. A summary of the factors that influence the strategies and performance of Finnish multinational retailers in Russia’s market is shown in Figure 20.



**Figure 20.** Summary of finding of the study

In conclusion, the finding of the study indicates that institutional factors *alone* cannot explain variation in organisational strategies and performance between countries. In particular, the finding indicates that strategic response choices, organisational and managerial characteristics, and legitimacy have been shown to

influence the operations of subsidiaries of Finnish multinational retailers in post-entry in Russia. The combination of institutional factors and organisational factors provides a holistic framework that explains the retail internationalisation process in post-entry. It is granted that the selection of subsidiaries of Finnish multinational retailers for the study certainly had an appeal for a purely pragmatic standpoint, but it is argued that these findings will be highly relevant to, and have high level of correlation with, other retailers whose future success will be driven by their foreign expansions. Although subsidiaries of Finnish multinational retailers in Russia do not publish financial results beyond sales for individual stores, the framework used for the study in Figure 1 by building on the established literature on institutional theory and international retailing provides a way to judge retailer strategic responses to institutional pressures and performance in post-entry in an emerging market of Russia. The five constructs: institutional environment; organisational characteristics; strategic responses; legitimacy; and performance of the research model for the study in Figure 3 were found to be valid representations, enabling the assessment of retailer strategic responses to institutional pressures and performance in an emerging market context.

## 7.2 Theoretical, empirical, and managerial contributions

The key theoretical contribution of this study is to point out the specificities of strategic response choices pursued by international retailers from a developed market economy operating in an emerging market economy of Russia. This dissertation tries to overcome some of the limitations of prior research and thereby making several contributions to the institutional analysis of organisational strategy. First, given the growing importance of retail internationalisation as a global business phenomenon, this phenomenon is less explored particularly in emerging market context such as Russia. This study takes an important step in advancing institutional theory (Meyer & Rowan 1977; DiMaggio & Powell 1983; Scott 1995, 2001), retail internationalisation literature (Vida & Fairhurst 1998), and organizational legitimacy strategy literature (Oliver 1991; Suchman 1995) to better understand a special case within international retailing discipline of what might be closely aligned to retail internationalisation process and performance. In particular, this study extends institutional theory (Meyer & Rowan 1977; DiMaggio & Powell 1983; Scott 1995, 2001) by identifying specific institutional pressures in the context of international retailing in an emerging market context. Furthermore, this study extend Oliver's (1991) and Zimmerman and Zeitz's (2002) typology of strategic responses to different types of institutional pressures by identifying *cooperation* as an addition strategic response type.

Second, this study extends current literature on international retailing by examining institutional constraints and strategies of international retailers in post-market entry and identifying factors that impact on retailers' performance in an emerging market context of Russia. By focusing on a specific emerging market context, this study attempt to address shortcomings in the institutional theory (Meyer & Rowan 1977; DiMaggio & Powell 1983; Scott 1995, 2001) which largely ignores internal idiosyncratic organisational characteristics and the role of interest and agency on international retailer's strategies, legitimacy, and performance. In particular, this study indicates that performance of subsidiaries of multinational retailers from developed market economies operating in emerging markets like Russia depends not only on host institutional environment factors, but also on the organisational and managerial characteristics of the firm and its strategic response choices.

Third, this study builds on the institutional perspective on retail internationalization (Bianchi & Arnold 2004; Deligonul et al. 2013; Cao & Pederzoli 2013; Huang & Sternquist 2007) by integrating Scott's (1995, 2001) three pillars of institutions and Oliver's (1991) typology of strategic responses to institutional processes, and Vida and Fairhurst's (1998) framework on retail internationalisation to develop a model that provides a holistic examination and understanding of the complex phenomenon of retail internationalisation performance in post-foreign market entry.

Fourth, this study contributes to the institutional perspective on retail international by indicating that international retailers cannot view the emerging retail market of Russia as a homogeneous market, since the institutional environment there is often complex, unstable, bureaucratic, and with multiple levels of jurisdiction and industrial structures. The tension between regulative, normative, and cognitive pressures and organisational characteristics require international retailers select the right strategic response choices and strategies for operating in Russia. Fifth, the application of institutional theory adds to a further dimension of the discussion of international retailer success/failure and can constitute a useful tool available to both academics and practice in understanding the complexities of success and failure of retail internationalisation literature.

Finally, the finding of this study is important to the international business literature given the prominence of context (i.e., Russia, emerging markets, international retailing, and retail store structure/concept) as an internationalisation process phenomenon. In effect, as emerging markets differ, the finding of this study provide some insight into the performance of foreign retailers that now, or will oper-

ate from within developed economies but seek to move into larger emerging markets.

This study also makes several empirical contributions. First, this study provides a new knowledge on how international retailers take deliberate strategic actions in response to institutional pressures as oppose to the traditional notion of passive conformance to isomorphic pressures. These study show that international retailers should be flexible and ready to pursue different strategic response tactics to penetrate emerging market of Russia, as the laws often change quickly. By sticking to their preferred retail concepts, core management practices, and corporate culture/values, Finnish multinational retailers are able to maintain their corporate identity and unique differential positioning in the Russian market.

Second, the finding of this study show that Finnish multinational retailers recognise the importance of cultivating the host market, making long-term commitment to investing in: market development, distribution networks, logistics, information technology, professional and local retail talent training, supplier networks, and other service providers due to lack of availability of the same level of business support services such as distribution channels and management education systems in an emerging markets as in the home market. In addition, this study attempts to distinguish and conceptualise the factors or conditions exerting pressure on the operation of international retailers in emerging market context, a concept that has received little attention. Finally, a conceptual model of international retailer strategic responses to institutional pressures and performance is developed and tested empirically through case research methodology.

A managerial contribution of this study is that it addresses the fundamental issue of business strategy of why organisations subject to the same level of institutional pressures pursue different strategies. Furthermore, building on institutional theory, this study contributes to managers understanding of the importance of the foreign institutional environment and the different forces exerting pressures on the operations of international retailers, and strategic response alternatives that can be pursued in response to the institutional environment to enhance legitimacy and performance. Finally, this study offers managers a better understanding of how institutional factors and the organisational managerial characteristics relate to appropriate organisational strategic response choices and legitimacy and performance.

### 7.3 Theoretical and managerial implications

A number of theoretical and managerial implications for retail internationalisation process in post-market entry in Russia emerged from the study. These relates to post-entry strategy and performance once the retailer has entered a particular foreign market.

The first theoretical implication concerns a broader conceptual framework. The absence of a concrete theoretical foundation underlining most international retailing research has been highlighted by a number of scholars (Alexander & Myers 2000; Davies 1995; Dawson 1994; Doherty 1999; Evan et al. 2000; Vida & Fairhurst 1998; Roberts 2005; Whiteheard 1992). The view held by Vida and Fairhurst (1998:143) that “the retail internationalisation process (RIP) appears to be a complex and relatively poorly understood phenomenon” still remains true. Alexander and Myers (2000:349) have maintained that theories focus “too much on the retail process and insufficiently on the consideration of such developments within the broader framework of conceptual thought on international business.” This study answers Huang and Sternquist (2007)’s call for application of institutional theory as an efficiency-satisficing strategy for the decision-making choices in a retailer’s international expansion. On one hand, although institutional theory is a relatively new theory as related to international retailing, its incremental exploratory power is obvious.

The institutional framework for this study provides relevant managerial implications for international retailers as well. First, retailers have to understand that choices are limited and external and internal organisational characteristics influence their strategic response choices to institutional pressures. The institutional forces my influence post-entry decisions at different levels- the regulative dimension at the country level, the normative at the culture or business level and the cognitive at the firm level. Thus, it is important for retail manager to identify institutional pressures and manage the institutional environment strategically. For instance, depending on whether the new market is similar or different from markets previously entered, the international retailer may choose to rely on its own prior experiential institutional knowledge and resources in deciding how to respond to institutional pressures. Second, for an international retailer, the impacts of the three institutional dimensions may influence post-entry strategies in different magnitude. Thus, retailers must consider all institutional forces when evaluating strategic response choices and determine which dimension and under what circumstances a dimension plays a more important role than others. For example, in addition to the unstable regulatory environment and bureaucracy and cultural differences in the host country, international retailers need to be aware of any

differences particular to retailing including those among target customers and industry practice.

In addition, the success of subsidiaries of Finnish multinational retailers in Russia appears to be aided by their decision to adapt and alter retail practices as needed based on identified cultural differences between Finland and Russia. Strong research, understanding and responsiveness to the local conditions were crucial to success. It must be recognised that the institutional environment at multiple levels exert different pressures, thus, a strategy of standardisation, adaptation, differentiation, centralisation, and collaboration is applied in respond to specific institutional pressures. Managers must recognise that transition economies such as Russia may have less developed infrastructure which may affect an entire industry. Insight from the interviews suggest that it is more beneficial to identify what aspects of the retail and marketing strategy are core to brand's identity and what aspects foreign subsidiaries can adapt to the local market.

Irrespective of the process or strategies that an individual retailer wants to pursue, the existing market condition can dictate how not only single firms, but all firms, must adapt their operations. A good example here was the lack of skilled retail talent in Russia. Simply understanding this situation can be a competitive advantage, with subsidiaries of Finnish multinational retailers appreciating the importance of continuing their best practice approach to intensive training of the local work force in line with corporate culture and values. Other multinationals may have to work harder at these issues and national deficiencies in critical infrastructure (skilled work force; transport, warehouse, logistics) may thwart the success of international expansion, particularly in transition economies like Russia.

Furthermore, managers must view the Russian market as very polarised in terms of income distribution. The gap between the rich and the poor is very wide, and large part of the population is very poor, while some few are very rich. Concentration of wealth in a rather small number of major municipalities such as Moscow, St. Petersburg, and Nizhny Novgorod means it would be a big mistake only to look at the size of the population as criteria for market attractiveness. Foreign retailers interested in establishing operations in Russia must view the country as a separate market that requires at least unique marketing and management strategies.

Moreover, retail managers must recognise that Russian consumers are brand-oriented, value quality, and are price-sensitive. Russian consumers are willing to pay but not for bad quality. Whereas private label products compete with brands, Russian consumers still prefer private label products of good quality. Food and eating have traditionally been important in the Soviet Union and Russia. And re-

cently, the trend has been that the sale of quality products is growing, and consumers are becoming health conscious. Luxury products are aimed at different demographics in Russia resulting in a different retail format/concept such as department store. Therefore, retailers have to take these issues into account when planning their marketing-mix strategies.

## 7.4 Limitations of the study

As with any study, this study has some limitations. The first limitation of the study is in relation to the conceptualization of strategic responses to institutional pressures and performance. Although a firm is an organisation embedded in both its own internal institutional environment consisting of structures, standards and practices established in the past and in an external institutional environment consisting of other organisations, this study focuses mainly on the institutional environment of the host country (Russia) at firm-level. Thus, this study did not take into account broader macro-level country-specific factors such as GDP, population, inflation, and unemployment in analysing the institutional environment and the pressures it exerts on international retailers.

Second, the study examines the effect of the institutional environment on the choices of international retailers in one of the largest emerging markets, Russia. Even though emerging markets exhibit some common characteristics in their institutional environment, they differ remarkably in the stages of their economic, institutional (Peng 2003) business systems, and position of global supply chain. For example, as Russia is often viewed as one of the most unstable, corrupt, bureaucratic country for doing business, this study is of the opinion that it might be only the Russian context that international (Finnish) retailers could change the old business practices and create new ones, relying on their financial resources, corporate culture/values and logistics know-how in Russia.

Third, this study does not examine the pre-internationalization process of the firms into the foreign market, thus it focuses on post-internationalisation strategies in the foreign market leading to strategic response choices and performance. Fourth, the transformation of the institutional environment of the host country from planned to free-market economy was not taken into account in this study. This study only considers the development or transformation of the retail industry/sector, and not the political and economic transformation.

Fifth, as firm strategies and structures are often industry, or sector specific, (Child & Smith 1987), this study investigates the strategic responses of firms within an



organizational field, retail FDI activities of subsidiaries of two Finnish multinational retailers having operation in Russia, thus one can think that firm responses to institutional pressures varies among different sector according to their experience in the Russian context. Thus, the results of the study may not be generalised to retail FDI activities in other countries or regions. Sixth, although the operations of international retailers is socially embedded in several relations, this study does not involve any in-depth probing of third-party respondents such as consumers, suppliers, competitors, other employees, or government regulators to examine the issue of “strategic responses to institutional pressures, legitimacy, and performance”.

Seventh, the study relied on the key informant method. Only country managers (key informants) were employed as respondents in the study due to prohibition of access to other managers and employees of the case firms for this study. The perceptions of one senior executive from each firm were assumed to be representative of the organisation as a whole. While this approach has also been adopted in previous studies, this study recognised that there may be some variation in the perception of institutional pressures, strategic response choices and performance of the firm. It is possible that managers may not disclose information which they think is sensitive for the company. Consequently, they might resort to providing answers which might not reflect the true position of the company. Thus, future research could attempt to survey multiple executives within an organisation to obtain a more holistic view.

Eight, while this study provided additional insight into retail internationalisation, the research is limited by the number and composition of participants. This study is based on a small sample of subsidiaries of Finnish multinational retailers operating in Russia. Consequently, the finding may be biased due to the nature of the target market and the national origin of the retail multinational. Further research could extend the study to a wider sample of international retail firms across a range of countries to expand the applicability of the findings. Finally, this study does not fully address the relationship between strategic response choices, legitimacy, and performance. The question of the extent to which institutional pressures and strategic response choices impact directly or indirectly on legitimacy and performance is unresolved.

## 7.5 Direction for future research

Theoretically, this study believe that institutional theory has wide applicability in emerging markets such as Russia since this perspective takes into consideration

the institutional environment at multiple levels, legitimacy from numerous stakeholders, and the role of interest and agency in gaining legitimacy in influencing retailer strategies and performance. Other theories that address aspects of informal institutions and culture could also be applied, such as stakeholder theory, social capital theory, network theory, and social exchange theory. A number of articles relating to Russian business and management have been context specific; in that findings are known to apply within Russia (e.g. see Michailova 2002; Fey & Shekshnia 2011; Karhunen & Kosonen 2013; Koveshnikov et al. 2012; Puffer & McCarthy 2011; Panina & Bierman 2013; Vadi & Vereshagin 2006). Such information can be helpful to practitioners working in that country, but it is not yet known whether such phenomena exist in the same way in other contexts. This study is one of the few studies that examined strategic responses to institutional pressures and performance of subsidiaries of Finnish multinational retailers in a specific context, Russia. It is not yet known whether such phenomena exist in the same way in other context. Therefore, comparative studies would provide more insights into whether Russian phenomena are different from those in other countries. If so, the knowledge produced is context bound; if the phenomena show no differences across countries, they may be considered context free. Therefore, this study calls for more context-specific study in Russia since it is important for understanding phenomena seemingly specific to that country, as well as comparative studies that can generate context-bounded knowledge and potentially context-free knowledge.

Further research could offer opportunities to apply improve mainstream theory by examining the interface between theory and context, both contextualising theory (theories in context) and theorising about context (theories of context (Puffer & McCarthy 2011; Whetten 2009). For example, agency theory in its present form seems to have limitations in explain phenomena in Russia (Puffer & McCarthy 2011). On the other hand, research based on institutional theory, also a Western-based theory appears to have wider applicability in such emerging markets due to the continued importance of the normative and cultural-cognitive institutions influencing consumers, employees and managers behaviour. It is vital to compare Russian business and management phenomena in the retail sector with those in both developed and emerging economies. In short, much indigenous, context-specific research has been conducted on Russian businesses and management, but more should be done on the retail sector.

Furthermore, variables could be developed for the constructs identified in this study to investigate the relationship between institutional pressures, strategic response choices, legitimacy and performance, and employing large sample of companies belonging to different sector according to their experience in Russian

context, and tested through quantitative research method. Scott (2008) had suggested that institutional theory has attained its maturity, very few rigorous studies has been conducted in the area of international retailing. This study paves the way for other quantitative studies on a large scale for instance in understanding how institutional pressures and processes evoke business strategic actions, which in turn affect firm legitimacy and performance. Finally, it would also be of great value in future research to examine the responses to institutional pressures at macro, industry and firm level through longitudinal approach taking into consideration the learning curve of international retailers in Russia.

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## APPENDICES

## Appendix A – Data Matrix

<b>Data/Cases</b>	<b>Adora</b>	<b>Zomaya</b>	<b>Palela</b>
<b>Annual reports</b>	2012/ 2013	2012/ 2013	2012/ 2013
<b>Other Publications:</b>	Capital Market Day Presentation, Helsinki (12.09.2012)	Capital Market Day Presentation, Helsinki (12.09.2012)	Press release (19.08.2011)
<b>Internal Materials:</b>	PowerPoint presentation slides (24.04.2012) Company presentation by Country Manager for subsidiaries in Russia	PowerPoint presentation slides (23.04.2012) Company presentation by Country Manager for subsidiaries in Russia	PowerPoint presentation slides (23.04.2012) Company presentation by Country Manager for subsidiaries in Russia
<b>Personal correspondence</b>	Consent letter and questionnaire	Consent letter and questionnaire	Consent letter and questionnaire
<b>Research articles</b>	McKenzie, B & Merrilees B. (2008); Larimo J. & Huuhka A. (2008)	McKenzie, B & Merrilees B. (2008); Larimo J. & Huuhka A. (2008)	Larimo J. & Huuhka A. (2008)
<b>Electronic messages</b>	Received: Sent:	Received: Sent:	Received: Sent:
<b>Internet text</b>			
<b>Tapes</b>	24.04.2012/ 14.02.2013	24.04.2012	23.04.2012/ 18.01.2013
<b>Observation notes</b>	24.04.2012	24.04.2012	24.04.2012
<b>Transcripts</b>	Interviews	Interviews	Interviews
<b>Notes</b>	24.04.2012	23.04.2012	23.04.2012
<b>Verification comments</b>	14.10.2013		

## Appendix B – Concern Letter and Interview questionnaire



**UNIVERSITY of VAASA**  
FACULTY OF BUSINESS STUDIES

I am a doctoral student at the University of Vaasa. I am writing my doctoral thesis on retail foreign direct investment in Russia and Baltic States. In particular, I am examining the complexities of the institutional environment of these countries on the expansion activities of Finnish multinational retailers and their responses to this complexity. I am particularly interested in how cross-national dissimilarities in retail regulations, retail store structure, business systems, and retail management practices affect the legitimacy and performance of retail transnational corporations (TNCs). A comparative analysis of the operational activities of Finnish multinational retailers in Russia would therefore help in identifying the institutional problems common to these firms, and the accompanying strategies that can be pursued to enhance legitimacy and performance, as well as sustain competitiveness in these markets. My supervisor is Professor Jorma Larimo of the Faculty of International Business at University of Vaasa.

The main purpose of this letter is to request 45 to 60 minutes of your time to answer some questions regarding the grocery and departmental store retail industry in Russia through a personal interview in your office, in the day and time of your convenience.

If you accept to participate in this study, your opinions will be treated confidentially, and your name will not be disclosed in any way. You will not be obliged to answer any questions that you find objectionable or that make you uncomfortable. The information gathered from this study will be only used by me.

I will soon contact you to confirm your decision to participate in this study. Meanwhile, if you have any questions, please feel free to contact me at phone number (+358 509232981), or by e-mail at [alphonse.aklamanu@uwasa.fi](mailto:alphonse.aklamanu@uwasa.fi). You can also address any question to my supervisor, Professor Jorma Larimo by phone at +358 6 324 8253 or by e-mail at [jorma.larimo@uwasa.fi](mailto:jorma.larimo@uwasa.fi).

Thank you very much. Your participation will be greatly appreciated.

Yours faithfully,  
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## Appendix C – Interview questionnaire



UNIVERSITY of VAASA  
FACULTY OF BUSINESS STUDIES

### Interview questionnaire

- a. *Background of the interviewee*
  1. Please can you describe your personal background and former positions?
  2. Please describe your current position and responsibilities
  3. When did you start working with this company?
  
- b. Unlike the manufacturing industry, the retail industry has to attend to the demands of many constituents in a foreign market. My next questions deal with the organisation of the operations of your retail activities in the foreign market:
  1. Please describe the main regulatory challenges you face regarding the retail sector in Russia.
  2. Please describe the cultural characteristics of Russian consumers. How different are they as compared to Finns.
  3. Please describe your departmental store format in Russia? How different are they from the parent in Finland?
  4. What is the ownership structure of your retail store in Russia?
  5. In your opinion which are the relevant customers, suppliers, manufacturers and retailers of the field of grocery and departmental store retailing in Russia?
  6. Please describe the product assortment in your stores in Russia. How different are they from what you offer in your stores in Finland?
  7. Please tell me about the nature of competition in the grocery retail sector in Russia.
  8. Can you please describe your human resource management policies and practices in Russia? How different are they from the parent in Finland?
  9. Please tell me about your marketing practices in Russia (e.g., pricing, advertising, and promotion etc.). How different are they compared to that of the parent in Finland?
  10. Please tell me about Russian management style? Did you have to make any changes?
  11. What do you think are the reasons consumers select certain stores for purchasing grocery products and not others?
  12. What are the reasons certain suppliers and manufactures want to do business with Stockmann?
  13. Please can you provide a description of the distribution channel in Russia? How do you get products to your stores in Russia?
  14. In your opinion, which are the main factors that lead firms to succeed in this industry of grocery and departmental store retailing in Russia? Which factors lead to failure?
  15. Why do you think that your company has been successful in the Russian market?

Thank you!

