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Institutional and Operational Dynamics in Retailing

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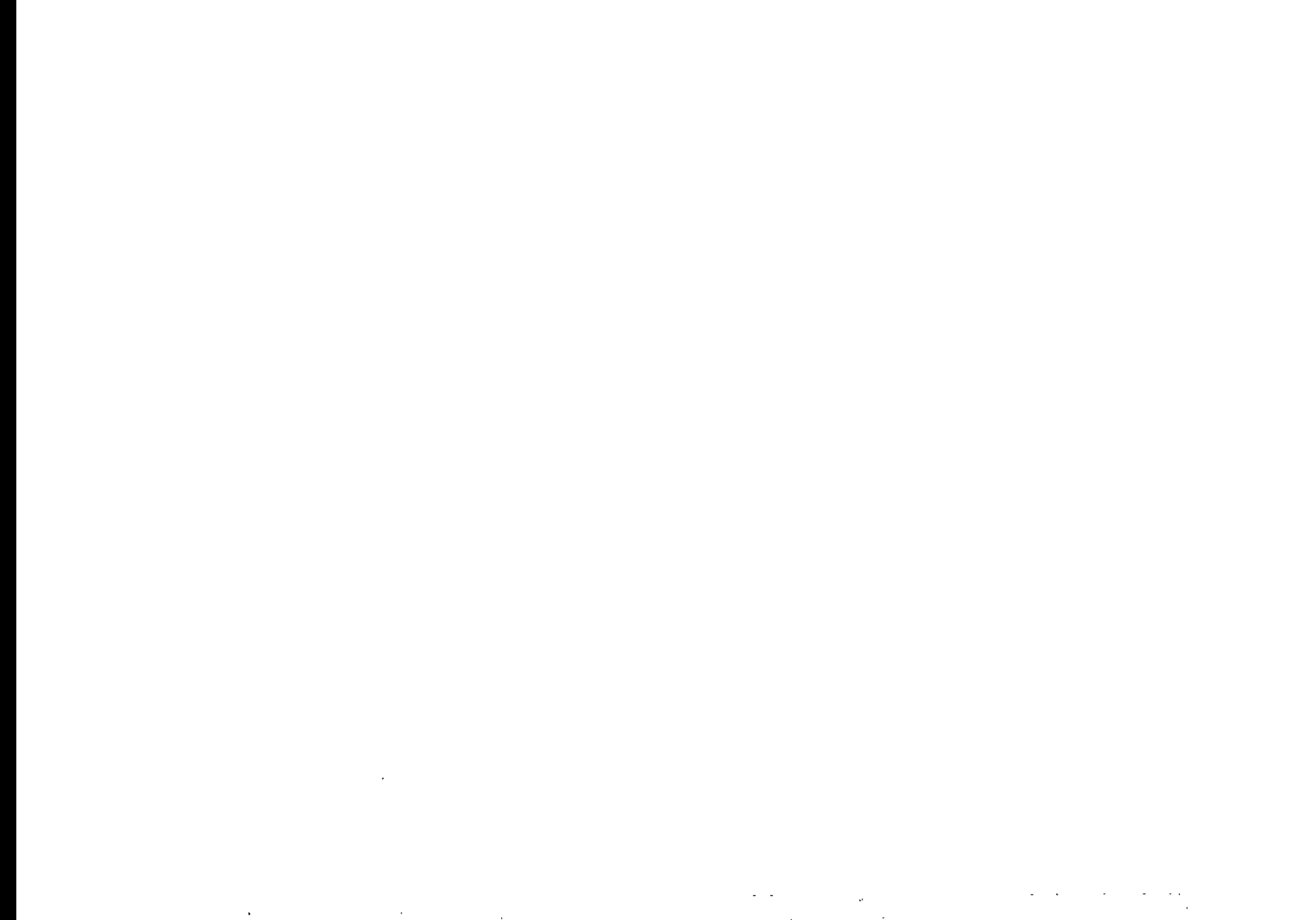
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ABSTRACT

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In this study the retail change phenomenon is examined from the viewpoint of theory development. The study is a theoretical exploration of the possibilities to understand, conceptualize and model the interrelated institutional and operational dynamics in retailing and to take into account the role of time, context and managerial behaviour in the retail institutional change.

The research process starts from the conceptual domain. The existing theoretical approaches and theories of retail change are reviewed and analysed. The direction of the theory development is shown and the theoretical foundations for modelling the phenomenon are examined. The deterministic view of change is rejected and it is argued that it is important to note the open-system interaction between the retail system and the retail environment. A more specified analysis of the dynamic interaction leads to the formation of a parsimonious conceptual model based on the relativistic view of change. According to the model the retail change is produced by the dynamic reciprocal interaction between the retail format, managerial behaviour and context both at the institutional and operational levels.

In the empirical part of the study the research process proceeds first to the methodological domain and then to the substantive domain. By noting the exploratory and theory building nature of this study the qualitative case research methods are chosen for the empirical analysis. A multiple-case design is created and implemented by applying it to the substantive domain. The case companies are selected from the Finnish (R-Kiosk chain) and Japanese (Seven-Eleven Japan) retail systems. First the evolution and adaptation of the two retail formats are described at two levels of analysis. Then in the cross-case analysis stage the key patterns related to the nature and direction of retail format change are analysed.

After the empirical analysis the research process moves back to the conceptual domain, in which the conceptual system is further elaborated by analysing it in the light of the empirically observed patterns. The conceptual system is not only found to be able to conceptualize the interrelated institutional and operational dynamics but also to provide understanding of the system related dynamics, in particular when analysed from the viewpoint of system equilibrium. It is argued that the use and application of the approach and the view change proposed in this study as a basis of a theory development would guide the theory development towards relativistic middle-range theories, which are capable of recognizing both the context dependent nature of retail change and the central role of retail decision-makers in producing planned changes.

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Key words: retailing, retail format change, dynamic interaction, theory development.

1. INTRODUCTION

1.1. Background of the study

Retail institutional change has been explained by the emergence of retail innovations like new low-price and low-cost retail institutions, which later upgrade and finally become a part of the established retail institutional structure of a given retail system. Typically retail innovations such as new retail formats are imitated, copied and transferred from one retail system to another, either in their original form or in a modified form to suit the state of retail development, the retail structure and the local consumer preferences (e.g. Fernie & Fernie 1997). Since rarely retail innovations alone are significant enough to result in fundamental changes in the retail systems, the retail institutional change cannot be explained only by the processes related to retail innovations. It can be claimed however that the diffusion of innovations together with the global trends in retailing seem to result in similar retail institutional structures in the retail systems of many countries (e.g. Hallsworth 1992; Davies 1998: 174).

The retail institutional change is to a great extent dependent on the specific context in which the change takes place. As the variation of retail environments is great across retail systems, it would be too simplistic to claim that the retail institutional change is a lawlike predetermined process, which will inevitably lead to similar retail structures everywhere. The retail change phenomenon is not caused by any single factor but by a multitude of interrelated factors, which all evolve over time.

When examining the retail institutional change historically in relation to the development of societies and economic life in general the connections between the changes in retailing and the changes in the retail environment can be identified (e.g. Cundiff 1988). It is possible to discover for instance the many long-term historical processes and the particular circumstances which have facilitated the emergence of new retail formats and resulted in a particular kind of retail development. The historical perspective reveals that retailing has always kept up with the times and tried to change in accordance with the changes in the retail environment (e.g. Alexander 1997; Jones & Monieson 1990).

In addition to the dynamic context, managerial behaviour is another central determinant of retail institutional change. Retailers operating in a turbulent retail environment characterized by rapid changes in customer demand are continuously searching for new competitive advantages and new ways to differentiate themselves (e.g. Morganosky 1997). In postmodern societies the retail institutional change is not so dependent on the historical development as before. Technological development has brought about new ways of doing retail business such as e-commerce which do not necessarily require the existing retail infrastructure to succeed. The retail change phenomenon cannot be properly understood by looking at only the long-term changes. Also a shorter time-span is needed in order to take into account the rapid short-term changes made by retail decision-makers at the operational level.

In rapidly changing retail markets the time-element, the speed of retail change and the creative management of the complexities related to it have become important factors from the viewpoint of retail institutional change. For instance time-based competition and the shortening product life cycles together with the accelerated rate of retail institutional change have made time one of the key decision variables and an important means of differentiation in retailing (e.g. Stalk & Webber 1993).

In rapidly changing retail markets retailers have to be able to cope with, adapt and respond to the various long-term and short-term changes. By producing planned and managed changes and by introducing retail innovations powerful retailers can affect the course of retail format change. The understanding of the retail change phenomenon, calls for the recognition of the increased role of managerial behaviour especially related to the creative adaptive behaviour (i.e. adaptation) of retail decision-makers.

1.2. Research problem

The analysis of retail institutional change creates the challenge for this study. **The research problem** of this study is related to the analysis and understanding of the complex processes of retail institutional change. In this study the retail change phenomenon is approached from

the viewpoint of theory building. In the marketing literature there are a number of theories which are created to conceptualize, describe or explain the different aspects of retail change. The scope of these theories range from uncomplicated theories to more complex and comprehensive theories which emphasize the open-system interaction between retail institutions and the retail environment. This rich body of theories of retail change forms a starting point for this study.

The research problem is also related to and influenced by the following theoretical questions. First, how can the time-element, context and managerial behaviour be taken into account when modelling retail change? Second, what do the existing theories of retail change assume about these interrelated factors and what seems to be lacking from these theories in this sense? Third, how can the dynamic interaction between the retail format, managerial behaviour and context be approached, understood and modelled?

The core of the research problem, the dynamic interaction between the three central elements of this study (retail format, managerial behaviour and context), is illustrated in Figure 1. This dynamic interaction is depicted in the form of two triangles placed within each other. The two triangles refer to the two different levels at which the dynamic interaction occurs simultaneously. The outer triangle illustrates the interaction of the three elements at the institutional level (i.e. institutional dynamics and adaptation) whereas the inner triangle illustrates their interaction at the operational level (i.e. operational dynamics and adaptation). The institutional and operational dynamics in retailing are produced by the changes and adaptations in the relations between the three elements both at the institutional and operational levels over time. In other words the evolution and adaptation of a retail format is a result of the dynamic interaction between the three elements.

The retail format, managerial behaviour and context are depicted in Figure 1 at two levels of analysis or abstraction (institutional and operational level). At the institutional level the retail format refers to a specific retail institution or retail institutional form (like a convenience store) which has a particular set of institutional characteristics. At the operational level the retail format refers to a particular set of operational characteristics which are typical to the

specific retail institutional form. The managerial behaviour at the institutional level refers to retail decision-makers' typical and relevant actions concerning the adaptation of the retail format at the institutional level. At the operational level the managerial behaviour refers to the typical and relevant actions concerning how the retail format is managed, operated and adapted at the operational level. The context refers to both the institutional and operational circumstances in which the change and adaptation occur.

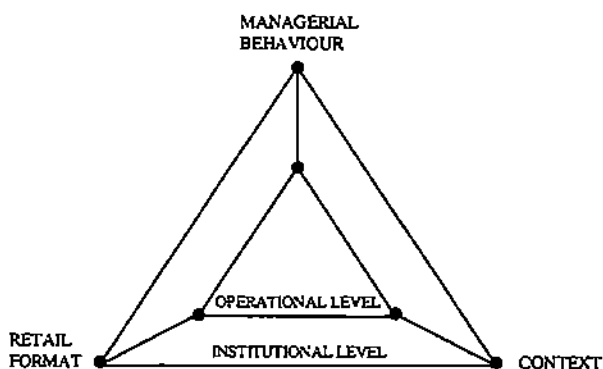


Figure 1. Interaction between the retail format, managerial behaviour and context at institutional and operational levels.

The dynamic system, formed by the three elements and the relations between them, is an open and adaptive system which evolves over time. In addition to the two main levels of analysis (institutional and operational level) the conceptual system includes also the third and the highest level of analysis or abstraction: the system level. The system level refers to the overall dynamic system, like a retail system of a given country, in which the retail institutional change (i.e. retail format change) takes place. The changes occurring at this level are referred to in this study as system related dynamics in retailing.

The conceptual system, with some of the key assumptions outlined above, is developed and elaborated in this study in the course of the research process.

1.3. Purpose and objectives of the study

It is assumed in this study that the retail change phenomenon is not produced by any single factor but by a multitude of interrelated factors which evolve over time. The analysis and understanding of the phenomenon requires the acknowledgement of changes which take place simultaneously at different levels of abstraction.

The analysis of retail institutional change creates the challenge for this study. **The purpose** of the study is to analyse the role of time, context and managerial behaviour in the retail institutional change.

The first objective is to analyse the theoretical approaches and theories of retail change. This is done in order to be able to develop an appropriate approach and theoretical foundations for modelling the retail change phenomenon.

The second objective is to construct a model which acknowledges the dynamic interaction between retail format, managerial behaviour and context.

The third objective is to understand the dynamic interaction and adaptation between institutional and operational levels in producing retail change.

The fourth objective is to analyse whether the approach and the view of change developed in this study could provide a new theoretical basis for the analysis and understanding of the system related dynamics in retailing.

1.4. Approach of the study

This study is a theoretical exploration of the possibilities to understand, conceptualize and model the interrelated institutional and operational dynamics in retailing and to take into account the role of time, context and managerial behaviour in the retail institutional change.

The fundamental choices concerning the stages of research process and the order of the selection of the elements and relations from the conceptual, methodological and substantive domain determine the research orientation and the pathway taken in the research (see Brinberg & McGrath 1985: 62–63, 68). The research process of this study has similarities with a particular research style which Brinberg and McGrath (1985) have named an experimental path. According to Brinberg and McGrath (1985: 60) an experimental path is a basic research orientation meaning that primary interest in the research is on the conceptual domain. The research process starts with the conceptual domain, proceeds to the methodological domain and concludes with the substantive domain. The elements and relations from the conceptual and methodological domain are combined in order to form an instrumental structure or study design. This study design is then implemented by applying it to some elements and relations from the substantive domain (Brinberg & McGrath 1985: 60).

The overall direction of the research process of this study is depicted in Figure 2. The research starts with the conceptual domain which refers to the rich body of theories of retail change. The conceptual domain has two levels, the paradigm level and the theory level, as the conceptual domain includes both the paradigms or theoretical approaches and the theories and models of retail change. The conceptual domain is the starting point of this study from which the elements and relations concerning the assumptions of the dynamic interaction between retail format, managerial behaviour and context are derived.

The second choice domain of this study is the methodological domain which refers to the research strategies and specific research methods available for research. The choices concerning the research methodology are guided by the choices made earlier in the conceptual domain. The result of the combination of the elements and relations from the conceptual and methodological domain is a concept-driven design which refers to the case study design developed for the empirical research. The empirical research of this study is based on a qualitative research approach and a case study method. The aim of the empirical research, in which a descriptive analysis is used as a main mode of analysis, is to describe the phenomenon and to produce an understanding of the evolution and adaptation of a retail format in a dynamic context.

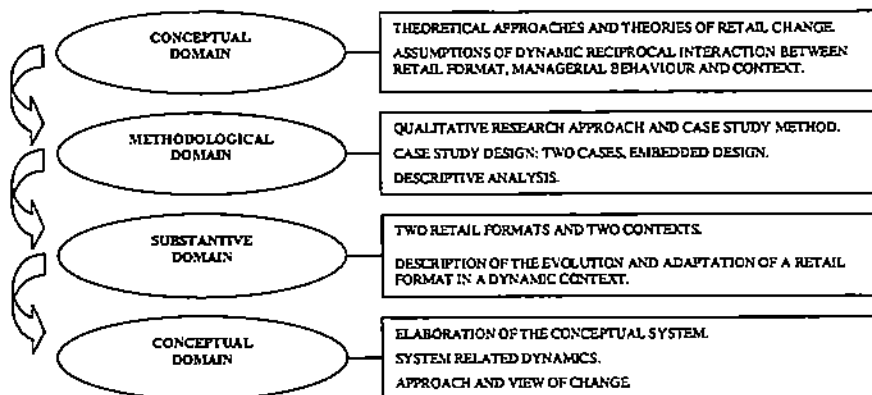


Figure 2. Direction of the research process.

The third choice domain is the substantive domain. A real-life phenomenon, a case illustrating the dynamic interaction between retail format, managerial behaviour and context, is selected from the substantive domain so that the choices concerning this case correspond with the choices made earlier in the conceptual and methodological domains. Two retail formats are selected as strategic, representative cases for the empirical research. The case study design is developed by combining the elements and relations from the conceptual and methodological domains and is applied to analyse the evolution and adaptation of two retail formats operating in two different contexts. The outcome of the empirical research is an implemented case study design.

After the empirical research the research process returns to the conceptual domain. In this stage of the research process the focus is first on the theory level when the empirical findings are used in the elaboration of the conceptual system developed earlier. Then the analysis is carried out at the system level and at the paradigm level. Finally the scope and limitations of the approach and view of change proposed in this study are analysed and its contribution to theory development is examined.

1.5. Structure and implementation of the study

The first chapter starts with an introductory discussion of the background and the research problem of the study. Then the purpose and objectives of the study are presented, and the research approach and the structure and implementation of the study are described.

The second chapter focuses on examining the theoretical foundations for understanding the retail change phenomenon. The chapter starts with the discussion of the nature of institutional innovations in retailing. Next the different theoretical approaches for analysing the retail change are presented. The theories and models belonging to these approaches are reviewed and analysed. Then the different approaches for analysing the interaction between retail institutions and the retail environment are presented. The chapter ends with conclusions.

The third chapter focuses on analysing and modelling the dynamic interaction in retailing. The chapter starts with a discussion of the general dynamics in retailing including views and assumptions related to the stability and change, the predictability of change and the dynamic interaction between the retail system and the retail environment. Then the possibilities for analysing the past and present retail developments by applying cross-sectional and longitudinal analysis are discussed. After discussing the general criteria for theory formation the study focuses on analysing and conceptualizing the reciprocal interaction between retail format, managerial behaviour and context. First the theoretical background for the reciprocal interaction approach is presented. Then the elements and relations, and the levels of abstraction, of the conceptual model are presented. Finally the assumptions concerning the institutional dynamics and adaptation and the operational dynamics and adaptation are put forward. The chapter ends with conclusions.

The fourth chapter is the empirical part of the study. In the beginning of the chapter the research methodology for theory building research is discussed and the case study design for the empirical research is formed. Then the choices concerning data collection and field research process are described. The major part of the chapter consists of two case studies.

Each case provides a chronological description of evolution and adaptation of a retail format in its dynamic context. In the cross-case analysis part of the empirical research, the key patterns that emerged from the two cases are analysed. Finally the conclusions of the chapter are presented.

In the fifth chapter the conceptual system is further elaborated. The chapter begins with the analysis of the conceptual model in the light of the empirical findings. Then the conceptual analysis focuses on the system related dynamics, and sums up first the systemic and then the paradigmatic issues involved. The scope and limitations of the approach and the view of change proposed in the study are then analysed against the criteria for theory formation. The chapter concludes with the presentation of the paradigmatic issues related to the use and application of the approach and the view of change as a basis of theory development for relativistic middle-range theories.

In the sixth chapter the research findings are summarized and the main conclusions, including implications for further research, are presented.

2. THEORETICAL FOUNDATIONS FOR UNDERSTANDING THE RETAIL CHANGE PHENOMENON

This chapter focuses on the retail change phenomenon from the perspective of existing theories. In the beginning of the chapter the nature of institutional innovations in retailing is examined (section 2.1.). Next the different theoretical approaches for analysing the retail change are presented (section 2.2.) and the existing theories of retail change are reviewed and analysed from the time-element, context and managerial behaviour point of view (section 2.3.). Then the different approaches for analysing the interaction between retail institutions and the retail environment are presented (section 2.4.). The chapter ends with conclusions (section 2.5.).

2.1. Nature of institutional innovations in retailing

The theoretical starting point of this study is the existing body of theories of retail change. However, before going to these dynamic theories and models, the nature of institutional innovations in retailing is examined in order to define and clarify the concepts of retail institution and innovation, and to discuss the dimensions of the retail innovations.

2.1.1. Retail institutions

The institutional school of thought in marketing has traditionally viewed marketing institutions as organizations which perform the specific functions required to move the good from the producer to the consumer (Sheth, Gardner & Garrett 1988: 74). The institutional and functional perspectives have been present in the distribution channel literature especially in studies which have focused on marketing agencies and the intermediates' role in the distribution structure (e.g. Gattorna 1978: 478-484). Also other research concerning retail institutions has often included the notion of retail institution as a particular functional configuration (Hirschman 1981: 124). Etgar (1984: 45) has for instance defined a retail institution as an organizational form with specific goals, boundaries and activity systems.

Markin and Duncan (1981: 61) maintained that a retail institution is comprised of a network of exchange relationships with a limited number of organizations.

A retail institution is usually understood to mean a distinctive retail institutional form, retail format or shop type belonging to the established retail market structure (e.g. Hirschman 1978). Thus a retail institution is an aggregate level representation of all retail establishments with the same kinds of characteristics. In the theories of retail change the concept of retail institution is in general broader. A retail institution can refer to actual established retail institutions and firms. It can also refer to any type of retail business which can be institutionalized and treated as unit of analysis when analysing changes in retailing. According to Markin and Duncan (1981: 63) institutionalization means that the organization and its innovation are accepted and supported by the external environment.

In spite of the great number of studies related to retail institutions there is no good a priori typology of retail institutions in the marketing literature (Hollander 1981: 89). Retail research has focused on retail institutions like supermarkets (e.g. Appel 1972; Goldman 1975-1976; Bucklin 1980), department stores (e.g. Bluestone, Hanna, Kuhn & Moore 1981), convenience stores (e.g. Kotler 1988), retail warehouses (e.g. Brown 1990b; Sampson & Tigert 1994) and factory outlet centres (Fernie & Fernie 1997). In statistics and descriptive studies of retail structures retail institutions are usually classified by various quantitative indicators like floor space, number of employees, merchandise categories' proportion of total sales etc. Other common indicators include e.g. the type of retail business, merchandise lines and services offered to customers. Retail institutions' internal organizational characteristics, operational practices and the value and image of the retail institutions perceived by the customers become important factors when analysing retail institutions in greater detail especially from the innovation point of view.

2.1.2. Innovation

Innovations have been analysed in many disciplines from the creation, adoption, diffusion, consequences or process point of view (e.g. Rogers 1995; Grønhaug & Kaufmann 1988).

No commonly agreed definition of innovation exists in the innovation literature, although an innovation is typically considered to present something new and useful (Grønhaug & Kaufmann 1988: 1–5; Hurmerinta-Peltomäki 2001: 43–49). Innovation types have been classified in terms of the state of the system (programmed and non-programmed innovations), in terms of the innovation's initial focus (e.g. technological and social innovations) and in terms of their outcome or effect (e.g. routine and innovative changes) (Zaltman, Duncan & Holbek 1973: 31; Biemans 1992: 14–15).

Innovations are typically both conceptual and perceptual (Drucker 1985: 72). For instance Zaltman, Duncan and Holbek (1973: 10) define an innovation as any idea, practice or material artifact perceived to be new by the relevant unit of adoption. Quinn, Baruch and Zien (1997: 3) argue that innovation consists of the social and managerial processes through which solutions for specific problems are first translated into social use in a given culture. According to them technological innovations typically involve some novel combination of art, science, or craft employed to create the goods or services used by society (Quinn et al. 1997: 3).

Process and product type of innovations have been identified in many studies related to innovations in specific industries (Utterback 1996; Biemans 1992: 10–11; Traill & Grunert 1997: 17–18). Process innovations are incremental improvements and changes in production technologies and processes whereas product innovations are more directly related to new commercial products. An essential concept for understanding the innovation process and the industrial dynamics in various industries is a dominant design (Utterback 1996: 24–26). It is also a central concept in the Abernathy - Utterback model of the dynamics of innovation (Utterback 1996: 79–91) which focuses on the changes in the structure of industry and in the number of process and product innovations. Concisely defined a dominant design is a product with a specific set of product attributes, which integrates in creative ways technological innovations included in previous individual products.

Utterback's view of the general dynamics of innovation includes many notions and insights which are also relevant from the retail business perspective. First, Utterback (1996) claims

that all major innovations have typically come from outside the established industries. Second, companies relying on old technologies will inevitably lose their competitive advantage if they are unable to recognize these major innovations and change their business accordingly. Third, the emergence of a dominant design creates market possibilities for new companies. Companies can avoid costs related to product development and research by imitating and copying existing innovations, which have proven to be successful (e.g. Schnaars 1994: 183–187).

Innovations in retailing have many similarities with the general characteristics given to innovations in the innovation literature. The creation of retail innovation requires a novel combination of different retailing mix variables, ideas and concepts from earlier innovations. Etgar (1984: 45–46) argued that a new retail institution is an organizational form which offers a novel mix of goals and strategies, boundaries, or technology. The source of retail innovation is traditionally seen located outside established retail institutions. Retail innovations like low-cost retail formats are typically introduced by innovative entrepreneurs and retail firms. Retail innovations are also diffused to different retail systems, structures and cultural settings (e.g. Fernie & Fernie 1997). Like other innovations, retail innovations are copied, imitated and adapted by other retail companies (Swinyard 1997: 246: “the domino effect”). Typically the adaptation of retail innovation requires that creative modifications and changes are made in original concepts. The adapted innovation has to match e.g. the characteristics of an adopter institution, the existing retail structure and the stage of the retail evolution process. The adaptation of retail innovations is also closely connected to the social change phenomenon and the various barriers of retail change.

The definition of retail innovation used in this study is based on the definition presented by Zaltman, Duncan and Holbek (1973: 10). Broadly defined a retail innovation is any idea, retail institution or practice in retailing which is perceived as new by the relevant unit of adoption (e.g. the established retail institutions) in a given context. A retail innovation can be an institutional or operational innovation, and it can have economic and non-economic dimensions.

Examples of the great diversity of retail institutional innovations are presented by McNair and May (1976: 64–65). They classified retail institutional innovations according to their importance in the US retail market. They identified both primary and secondary institutional innovations. Primary institutional innovations were e.g. department stores, general mail-order companies, chain store companies, and self-service and checkout practices. Secondary institutional innovations were e.g. franchise stores, direct in-home selling and vending machines. They also identified retail institutional casualties, retail types like specialized food stores, tobacco stores and wagon retailers which have lost their importance and market share during the retail evolution (McNair & May 1976: 65).

There is also a distinction between institutional and operational innovations. The retail change literature has mainly focused on institutional innovations like specific retail formats or shop types at the institutional level. Operational innovations are related to retail functions, operational marketing practices (e.g. Greenley & Shipley 1992: 22), store level marketing decision factors and technologies utilized in retail stores (e.g. POS-systems). Operational innovations are typically incremental improvements at the store level. Institutional and operational innovations are however closely related to each other. Retail innovations are typically creative combinations of different factors and thus include several dimensions. The next section focuses on these factors and dimensions.

2.1.3. Dimensions of retail innovations

Retail innovations have both economic and non-economic dimensions. The economic dimension of retail innovation is closely related to the efficiency of the retail firm. Efficiency, low prices and costs, and economies of scale are traditionally considered to be the main characteristics of innovative retail firms. Goldman (1975: 59–60) for instance maintained that new retail innovations can achieve a reduction in margin and in prices by decreasing expenses per item, by reducing profits and by decreasing the cost of goods bought. The non-economic dimension of retail innovation is closely related to intangible factors like the value perceived by customers and customer convenience.

It is too limited to explain the emergence of retail innovations only with a few economic factors like low prices and low cost (e.g. Rosenbloom & Dupuis 1994). Swinyard (1997: 249) has pointed out that when previously speed and efficiency in retailing were a result of the power of size and scale, today they result from technology. Therefore retail firms operating in competitive and crowded retail markets have to combine creatively both economic and non-economic dimensions of innovations, and use skills, technology and strategic thinking to differentiate themselves from competitors (e.g. Quinn et al. 1997). Etgar (1984: 46–49) argued that the diversity of retail institutions is caused because new retail institutions can have different internal operations (e.g. specialization of retailing functions), different external formats with which retailing organizations interact with their customers (e.g. new retailing mix) or different combinations of internal operations and external formats.

Innovative retail firms have to be able to create the right mix of merchandise assortments, services, customer convenience and value, store image, quality and other factors such as design. The Body Shop, Barnes & Noble and Home Depot are examples of retail firms which have created value innovations in retailing. They have differentiated themselves from competitors by looking across substitute industries and by focusing on creating new combinations of value perceived by customers (Kim & Mauborgne 1999).

The next section shows how the theories of retail change have developed from the uncomplicated theorizations focusing mainly on the economic dimension of retail change towards comprehensive theories with multiple dimensions.

2.2. Theoretical approaches for analysing the retail change

Theoretical research focusing on the retail change phenomenon is a very distinct research area with a long tradition in marketing and retailing studies. Hollander (1981: 84–85) classified explicit theorizing about retail trades as macrotheory which has concentrated on environmental relationships and on institutional evolution and as microtheory which has concentrated on managerial strategy and tactics. Rosenbloom and Schiffman (1981: 174)

regarded a retail institutional theory as one of the several approaches to retail theory which deals with the dynamics of retailing in terms of evolutionary processes that explain the changes in the structure of retailing. A dynamic, evolutionary aspect included in the theories of retail change separates these studies from the static analysis of retail institutions and distribution channels or other conceptualizations of retailing.

The theory development related to the retail institutional change has been especially rich. Many concepts, hypothesis, models and theories have been developed to describe or explain some particular aspects of the retail change phenomenon. Instead of a single unified, explicit theory of retail change, there are both descriptive theories with narrow scope and comprehensive complex theories with broad scope explaining the evolution of retail and distribution systems. The richness and diversity of the existing theories is a valuable starting point for understanding the retail change phenomenon.

In the marketing literature theories of retail change have been classified as adjustment and cycle theories (Gist 1974: 352), stage, cycle and dialectic theories (Savitt 1984a: 150), deterministic and ecological theories (Roth & Klein 1993: 168–172), and cyclical, conflict, environmental and combined theories (Brown 1987a: 6–27, 1988b: 19–23; Sampson & Tigert 1994: 82–84; Davies 1998: 165–166; Laaksonen & Huuhka 1999: 8). The last-mentioned classification forms the basis for the review and the analysis of the theories in this study. The classification originally presented by Brown (1987a) is detailed enough for the purposes of this study. The classification takes into account the connections between theoretical approaches and the theoretical elements included in theories.

The three basic approaches of theories are cyclical theory, conflict theory and environmental theory. Cyclical theories emphasize cyclical, repetitive patterns of change. Conflict theories focus on conflict, competition and retail organizations' adaptive behaviour when faced with retail innovations. Environmental theories emphasize the interaction between the retail institution and the retail environment, and the adjustments made by retail institutions in relation to the changes in the retail environment. In addition to these approaches there is a group of theories, combined theory, which includes combinations and extensions of the

theories belonging to the basic approaches. The three basic approaches are uncomplicated in comparison with the combined theory approach. Combined theories include also very comprehensive and complex theoretical frameworks.

The combined theory approach is especially interesting from the theory formation point of view. This approach explicitly acknowledges an essential aspect related to the evolution of the theories. Most of the combined theories have been formed by integrating lower level partial theories, models, hypothesis and concepts. The aim has been to form more comprehensive theories. Thus the theory formation has evolved from deterministic specific theories towards more general or comprehensive theories with an open-system view (Laaksonen & Huuhka 1999).

One reason for this search for comprehensiveness has been that uncomplicated and deterministic mainly institutional level descriptions of retail change were not able to explain complex relations between retailing and its environment. Broad frameworks like natural selection in retailing were utilized in comprehensive environmental theories. An open-system view of retail change was adapted into theories in order to explicitly recognize the decision-maker's role in the retail change process and thus avoid the deterministic assumptions often involved in the earlier theories.

Another typical characteristic of theory formation has been that most of the theories do not fulfil the criteria of formal theories (e.g. Hirschman & Stampfl 1980: 72). Many uncomplicated theories, models and hypothesis are often treated in the marketing literature as theories although they are just descriptions of some aspects of the retail change phenomenon. If analysing the existing body of theories by using the continuum of theory construction (Dumont & Wilson 1970) it is evident that many theories have rapidly passed the theory sketch stage but none of them have gained the status of an explicit theory (Laaksonen & Huuhka 1999). The theoretical work in the field of retail change has focused more on generating theories, models and hypothesis and combining them together than on explicitly testing them.

2.3. Review and analysis of the theories of retail change

The review and analysis of the theories of retail change has two objectives. The first objective is to find out, how the dynamics i.e. the time-element, contextual factors and managerial behaviour have been taken into account in the existing theories. What do the theories propose about these factors? What is lacking from the theories in this sense? How sensitive are the theories to changes in time, context and managerial behaviour? The second objective is to select the most appropriate approach and theoretical foundations for modelling the retail institutional change.

The theories are classified into two general classes: uncomplicated theories (including cyclical, conflict and environmental approaches) and combined theories. The theories are first reviewed and described approach by approach. The review highlights the main assumptions of the theories and describes their main background notions. Irrespective of the degree of theory explicitness, all theories, models, hypothesis or frameworks reviewed here are regarded as theories.

After the review each approach is analysed from the time-element, context and managerial behaviour point of view. The three factors guiding the analysis of the approaches are described below separately. The factors are however closely related to each other. For instance an explicit acknowledgement of managerial behaviour in the retail change processes determines the theory's general assumptions about the nature of change and the context dependency of change. Also for example the theory's assumptions related to managerial behaviour depend on whether a theory is intended to be a normative theory with managerial implications or a comprehensive theory explaining the retail change phenomenon at a high level of abstraction.

Time-element. The analysis of the approaches from the time-element point of view focuses on the dynamic nature of the theories. The questions examined in relation to the theories' dynamic aspects are as follows. Do the theories assume that the retail change phenomenon occurs in specific stages, cycles or patterns? Do the theories take into account the past,

longitudinal processes in retailing? How sensitive are the theories to rapid changes in dynamic retail markets? Are the theories able to predict future changes in retailing? Do the theories view retail change as revolutionary (sudden and discontinuous) or evolutionary (consisting of mutations produced by populations interacting over time and space), random (the necessary antecedents of change are unidentified) or deterministic (the necessary antecedents of change are related "lawfully" to their consequences) (Fisk 1988: 57–58).

Context. The analysis of the approaches from the context point of view focuses mainly on two characteristics of theories: the scope or comprehensiveness of the theories and the theories' ability to take into account the interaction between retail institutions and the retail environment. The first objective of the analysis is to examine whether the theories have a narrow or broad scope. This means whether the theories describe or explain only some specific aspects of the retail phenomenon in a specific context or whether they are general theories which can be applied to many different contexts. Also the scope of the theories in relation to the level of abstraction and the unit of analysis (e.g. a firm, retail institution, distribution system) is examined in this connection. The second objective is to analyse whether the theories explicitly or implicitly assume that there is an interaction between retail institutions and the retail environment. From the interaction point of view it is important identify whether the theories assume a closed-system or open-system view of change.

Managerial behaviour. The analysis of the approaches from the managerial behaviour point of view concentrates on examining whether the theories explicitly or implicitly acknowledge retail actors' or decision-makers' active role in the retail institutional change. The questions to be answered in the analysis are: Do the theories regard retail change as a deterministic lawlike process or a process which can be managed? How sensitive are the theories to taking into account the retail managers' strategic or operational decisions and active retail planning. Rosenbloom and Schiffman (1981: 169) have argued that the basic role of a theory from the retail management perspective would be to provide an improved understanding of retail management activities as a basis for making better retail management decisions. This managerial perspective is taken into account when examining whether the theory provides any normative or practical managerial implications.

2.3.1. Uncomplicated theories

Cyclical theory

The cyclical approach consists of theories which describe repetitive changes in retail institutions' price, cost and service levels, merchandise assortments and the size and number of retail stores in the markets (Table 1). The cyclical theories focus mainly on describing and conceptualizing the evolution of retail institutions or the specific patterns related to this phenomenon. The review of cyclical theories includes also the elaborations and expansions of cyclical theories. Those elaborations of the cyclical theories which combine assumptions from other approaches are presented in the review of combined theories (section 2.3.2.).

Table 1. Cyclical theories.

AUTHOR	THEORY	DESCRIPTION
McNair 1957, (ref. McNair 1999; McNair & May 1976; Hollander 1960)	Wheel of retailing theory.	Retail evolution begins with the emergence of a low-cost and low-price institutional innovation which grows, matures, trades-up and becomes a high-cost institution and finally vulnerable to a new low-cost innovation.
Goldman (1975)	Types of trading-up.	Goldman identifies different types of trading-up (i.e. the increase of the level of services) which are (1) routine, (2) nonroutine and (3) innovative trading-up. Goldman examines also the role of trading-up in intratype competition.
Hollander (1966)	Retail accordion theory.	Description of general - specific - general cycle of merchandise assortments.
Davidson, Bates & Bass (1976)	Retail life cycle model.	Four stage institutional life cycle: (1) innovation, (2) accelerated development, (3) maturity and (4) decline.
Dreesmann (1968)	Polarization principle.	Polarization of retail institutions by size: large and small retail institutions.
Brown (1987b)	Multi-polarization model.	Polarization of retail institutions by price, assortment and size dimensions.
Ford 1935, (ref. Bucklin 1972)	Ford Effect in retailing.	Number of shops selling staples declines and the number of shops selling luxury goods increases because the standard of living rises and retailers utilize the economies of scale.

The wheel of retailing theory (also known as the wheel of retailing hypothesis) by McNair describes a much discussed and observed recurring pattern in retailing. According to McNair (McNair 1999: 22–23; McNair & May 1976: 1–3; Hollander 1960: 37) the cycle begins when an innovative retail entrepreneur enters a market with a new low-price, low-cost retail concept. At first the newcomer is a low-status retailer attracting customers with low prices. As the cycle goes on the retailer trades-up, improves the quality of merchandise and becomes more respected. At the period of growth the retailer takes business away from

established retailers relying on conventional methods. As the retail institution grows its capital investment increases and its operating costs tend to rise. At the maturity stage the retail institution has become a respected high-status retailer which competes with other similar institutions rather than with the conventional old-line retailers. As the retail institution matures it becomes a conservative retailer with a decline in the rate of return on investment. At the same time it has become vulnerable to a new low-price, low-cost retailer which starts a new cycle. Brown (1987a: 10–11, 1988b: 16–17) in his depiction of the wheel of retailing named the three stages of the wheel as an entry phase, trading-up phase and vulnerability phase.

The phenomenon and the trading-up process related to it have been explained by e.g. retail entrepreneurial, organizational, economic, statistical and demographic factors (Hollander 1960: 37–38; Gist 1968: 94–95, Dreesmann 1968: 74–76; Goldman 1975: 56–57; Davidson, Bates & Bass 1976: 89–90; Stern & El-Ansary 1977: 241–242; Markin & Duncan 1981: 59; Roth & Klein 1993: 169; Brown 1995: 395–396). Brown (1990b: 50) for instance maintained that the trading-up is the outcome of a combination of environmental trends and both intratype and intertype competition. According to Hunt (1983: 137) the wheel of retailing is a form of the inductive-statistical explanation. Many observations, case histories and descriptions of retail development support the wheel of retailing theory (e.g. Hollander 1960: 39–40; McNair & May 1976, 1978; Dawson 1979: 187; Teeple 1979; Savitt 1984b: 48–53; Appel 1972: 47; Roth & Klein 1993: 170). Examples show however that retail development has not always followed the deterministic pattern proposed by the hypothesis (e.g. Hollander 1960: 40–41; Goldman 1975: 62; Kaynak 1979: 239–240; Hunt 1983: 137; Rosenbloom & Dupuis 1994: 151–152). The wheel of retailing is a classic work among the theories of retail change. It has been included in many combined theories and treated as an explicit theory. It has become an illustrative metaphor of the retail change phenomenon, innovative retail entrepreneurs and the development of retail institutions (e.g. Brown 1990a: 145, 1995: 402).

Elaborations of the wheel of retailing theory within the cyclical approach have been introduced by Goldman (1975) and Davidson et al. (1976). Goldman (1975: 62) focused on

the margin reduction phenomenon and the trading-up process described by the wheel of retailing theory and concluded that not all retail institutions enter the market with a low-cost, no-service profile (see also Rosenbloom & Dupuis 1994). According to Goldman (1975: 62) the wheel of retailing theory fails to realize that service addition and service reduction are not the only causes of important margin changes. The trading-up, i.e. the increase in the level of services, is not a deterministic process as proposed by the original wheel of retailing theory. Goldman (1975: 57) argues that the trading-up is actually a change or changes made by a retailer in some aspects of his operation. According to Goldman (1975: 57) there are three trading-up alternatives available to retailers. Retailers can choose routine (offering more of the existing services), nonroutine (offering new services) or innovative trading-up (offering new service-price combinations). Because retailers are assumed to select a trading-up alternative which involves the least amount of investment with the least effort, retailers try routine and non-routine trading-up alternatives before innovative trading-up which requires the highest investments (Goldman 1975: 57). According to Goldman (1975: 62) retailers make trading-up decisions as a response to consumer demand and competition with both established and new store types.

Another elaboration of the wheel of retailing theory was presented by Davidson, Bates and Bass (1976). They argued in their retail life cycle theory that retail institutions pass through an identifiable life cycle. This cycle can be used for explaining and predicting institutional actions and changes in the market share and profitability of retail institutions. The retail life cycle has four stages: innovation, accelerated development, maturity and decline stages. Davidson et al. (1976: 93) claimed that the retail life cycle is a natural evolutionary process that is impossible to stop. The authors stated specific retailer and supplier actions required at the different stages of the institutional life cycle. Retailers can for instance utilize different strategies at different stages, anticipate changes in stages and plan correct actions to adapt these changes (Davidson et al. 1976: 93).

Later Davidson and Smallwood (1980: 53) refined the retail life cycle concept by focusing on the manageability of the retail life cycle from the standpoint of an individual retail company. According to them life cycles are only partially deterministic in retailing (Davidson

& Smallwood 1980: 54). They (1980: 58) viewed a company as a combination of various forms of life cycles, which may be complementary or conflicting. Retail life cycles are partially manageable because retailers can take them into consideration when making strategic and tactical decisions. This manageability means that retailers' actions are based on their analysis of e.g. their relevant markets, consumer market segments, capital requirements and marketing mix variables from the retail life cycle point of view. Later **Davidson and Johnson** (1981: 51-63; see also McGoldrick 1990: 17-18) integrated the retail life cycle theory more closely to economic and financial factors and discussed the management of retail life cycles from the viewpoint of portfolio analysis and management. By taking into account the life cycle, the risk and return of particular stores, departments of a store or product lines a retailer can plan and carry out for instance suitable growth renewal strategies and thus maintain profitability.

Other descriptions of retail development with a cyclical and deterministic nature are the retail accordion and the polarization principle. The pattern of the retail accordion or the accordion principle (**Hollander** 1966: 29, 1980: 78), also known as the general-specific-general cycle (**Gist** 1968: 97), describes changes in retail institutions' merchandise assortments. The retail accordion asserts that the domination by general-line, wide-assortment retailers alternates with domination by specialized, narrow-line merchants (**Hollander** 1966: 29). This pattern was first observed by Hower (in the 1940s), who noted in the US retailing market "wave-like alternating swings" in retailers' operations and functions performed and in their merchandise assortments (**Hollander** 1966: 29; **Savitt** 1989: 339-340). The retail accordion theory is supported by historical observations. **Gist** (1968: 97-106) for instance described how the US retail system was at first dominated by rural general stores but then by specialty stores and later by general retail institutions. Retailers' tendency towards specialization have been explained by e.g. non-economic factors like retailer's personal preferences for staying small-scale specialists, other restraints like the avoidance of competition, capacity factors related to limited capital or management resources, costs factors related to merchandise expansion and market factors like consumer preferences for specialty stores (**Hollander** 1966: 36-40).

The polarization principle focuses on the relationship between large and small retail institutions (Brown 1987a: 14–15, 1987b: 157–158). Dreesmann (1968: 80) observed how in the US retailing market the general trend to trade up and the development of bigger store units like large supermarkets or shopping centres created possibilities for smaller retailers like discounters and convenience type stores. The appearance of these retailers was a contrary trend, a backwards evolution which is analogical to the biological pattern of regression (Dreesmann 1968: 79). Kirby (1986: 7) forecast and observed the same kind of phenomenon in the British retailing market and maintained in his theory of retail polarization that the retail systems of most high level economies will polarize. The theory states that there are at the one end of the retail spectrum the domination of the large retail operations serving highly mobile consumer segments which are prepared to buy in bulk (Kirby 1986: 7). The other end of the retail spectrum is characterized by the small, efficient retail operations which are complementing the large retail outlets (Kirby 1986: 7, 12; see also McGoldrick 1990: 48). The small retailers satisfy the majority shopping needs of the consumer minority and the minority needs of the consumer majority (Kirby 1986: 7). According to the theory the increasing scale of retailing creates conditions under which the small efficiently managed and serviced retail stores can survive and prosper (Kirby 1986: 12). A related example was presented by Houston and Stanton (1984: 134) who found (by using their retail site evaluation model) that the closeness of a supermarket had an enhancing effect on the sales of convenience stores.

Brown (1987a: 14–15) argued that the dynamic processes described by the wheel of retailing theory, the accordion and polarization principles are interconnected. He expanded the polarization principle in his multi-polarization model. According to the model retailing polarizes simultaneously along price, assortment and size dimensions so that institutional development along any of these dimensions gives a rise to counter-balancing actions at one or more of the others (Brown 1987a: 15, 1987b: 158–162). It must be noted here that although Brown's model is based on three cyclical theories the model has also characteristics of combined theories. Although Brown (1987b: 160–162) tentatively explained the multi-polarization phenomenon with factors from conflict and environmental approaches, he did not explicitly combine these other approaches to the cyclical approach.

The pattern known as the Ford Effect in retailing focuses on the changes in the number of luxury goods stores and staple goods stores (Ford 1935, ref. Bucklin 1972: 75–77; see also Roth & Klein 1993: 168–169; Hollander 1980: 78). P. Ford analysed British retailing in the period of 1901–1931 and noted that there was a decline in the number of stores selling staples such as food and clothing but an increase in the number of stores selling luxury goods or fish and chips stands (Bucklin 1972: 75). Ford hypothesized that the decline in the staples goods stores was caused by the economies of scale inherent in massive retailing while the increase in the number of stores selling luxury goods was a result of the rising standards of living (Bucklin 1972: 75–76). Similar patterns relating to food stores and specialty stores have been observed in the US retailing market by Bucklin (1972: 75–76), who explained the phenomenon with the mechanics of the adoption cycle for retail institutions. Ford's hypothesis has been criticized as too simplistic and not valid in modern retailing (Roth & Klein 1993: 169).

Time-element, context and managerial behaviour in the cyclical theories

Time-element. Cyclical theories describe cyclical repetitive patterns in retailing. The wheel of retailing, the retail life cycle and the retail accordion theories view retail change occurring in repetitive stages while the polarization principle, the multi-polarization model and the Ford effect focus on describing the recurrence of a pattern with typical retail institutional characteristics. The descriptive and deterministic nature of cyclical theories have been criticized and discussed (e.g. Hirschman & Stampfl 1980: 72; Markin & Duncan 1981: 61; Roth & Klein 1993: 170). Because cyclical theories are mainly descriptions of retail evolution based on historical observations and longitudinal analysis of retailing, cyclical theories emphasize long-term rather than short-term changes in retailing. The prediction of future changes in retailing is related to analysing and observing repetitive patterns in retail development and anticipating deterministic changes from one stage to another.

Context. From the context point of view the limitations of cyclical theories are related to the relatively narrow scope of the theories and the closed-system view included in them. Cyclical theories focus mainly on describing changes in characteristics at the institutional level and

company level. The theories put an emphasis on one or few factors and mechanism of change (e.g. Davies 1998: 175–176). Cyclical theories are closed-system theories which do not explicitly acknowledge the interaction between retail institutions and environment (e.g. Etgar 1984: 43; Wilkinson 1990: 18). Theories based on the closed-system view fail to recognize the context dependent nature of retail change and the great variation of retailing across different retail environments (e.g. Roth & Klein 1993: 173).

Managerial behaviour. Cyclical theories are essentially deterministic, closed-system theories which in their original form do not explicitly take into account the retail decision-makers' active role in the retail institutional change. The later elaborations of these theories (e.g. by Goldman 1975) and the many explanations given to them in the retail marketing literature include however notions of retail actors' behaviour and the partial manageability of the retail processes. In spite of their deterministic nature cyclical theories are not entirely without managerial value. Because the cyclical theories describe mainly the changes in the institutional and company level factors like price, service and merchandise assortments these theories provide insights into the key economic aspects of the retail change phenomenon. The retail life cycle theory for instance illustrates in a normative way the management actions needed for retailers to maintain profits at different stages of the institutional life cycle.

Conflict theory

Conflict theories focus on describing the change and adaptive behaviour of retail institutions in conflict situations (Table 2). The conflict is mainly caused by the emergence of new retail institutions or by economic competition.

Gist (1968: 106–109, 1974: 360–363) showed that the evolution of retail institutional forms in the US can be described and analysed by using the dialectic view of change based on the ideas of Hegel and Marx. According to this view, termed Retail Hegelianism by Hollander (1981: 88), the retail evolution follows a thesis - antithesis - synthesis process. In the beginning of the process an established, mature and vulnerable retail institutional form (e.g. a

department store) is challenged by a new innovative institutional form with some opposite operating characteristics (e.g. discount operations). These two conflicting forms, the thesis and the antithesis, evolve over time and a new institutional form (e.g. a discount department store) emerges. This form is the synthesis, a new institutional form which has absorbed some characteristics from both of the earlier forms. The process goes on and the synthesis becomes a new thesis which is in turn followed by an antithesis and then by a synthesis and so on. Conflicting institutional forms can evolve through several stages so that each new synthesis represents a new stage of the evolution process (Gist 1968: 107, 1974: 362-363).

Table 2. Conflict theories.

AUTHOR	THEORY	DESCRIPTION
Gist (1968)	Dialectic process.	Hegelian view of change. The evolution of retail institutions follows the dialectic thesis - antithesis - synthesis process.
Maronick & Walker (1978)	Dialectic evolution of retailing.	Dialectic hypothesis which emphasizes retail institutions' adaptive behaviour when faced with innovations. The evolution of retail institutions is influenced by retail institutions' efforts to satisfy customers needs (offensive factors) and retail institutions' search for differential advantage (defensive factors).
Fink, Beak & Taddeo (1971), Stern & El-Ansary (1977)	Model of organizational change.	Four stage model of an organization's internal reactions in crisis situations. The stages are (1) shock, (2) defensive retreat, (3) acknowledgement, and (4) adaptation and change.
Galbraith 1952, (ref. Galbraith 1980)	Concept of countervailing power.	In an oligopoly market a private economic power is held in check by the countervailing power of those who are subject to it.

The dialectic view of retail change was further discussed and elaborated by Maronick and Walker (1978). Using the evolution of department stores, service stations, supermarkets, drive-in restaurants and automatic merchandising in the US as examples they described the dialectic evolution of these institutions and analysed its causes. They explained the retail institutional change with factors related to the marketing concept and the principle of differential advantage. They argued that retail change is influenced by dynamic customer wants and retail institutions' search for differential advantage (Maronick & Walker 1978: 254-256). These factors can be offensive or defensive, in other words be related to seizing market opportunities, or to protect or regain one's position in the marketplace (Maronick & Walker 1978: 254). Maronick and Walker's dialectic theory emphasizes the mutual adaptive behaviour of established institutions and innovative competitors.

Stern and El-Ansary (1977: 246-249) used the crisis-change model to describe how established members of a channel (the independent grocers) adapted to changing conditions

in a situation when a channel was threatened by an innovative competitor (the chain grocery stores). They maintained that organizational systems pass through a cycle with four distinct phases or periods as they adapt to crisis situations: shock, defensive retreat, acknowledgement, and finally adaptation and change or growth phase (Stern & El-Ansary 1977: 246). After the final adaptation and change phase a new cycle begins. This time it is the other system's (the innovative competitor) turn to experience the shock phase. Thus the cycle continues as a chain of actions and reactions (Stern & El-Ansary 1977: 249). The model is also known as a crisis-response model (Dawson 1979: 349–358).

Stern and El-Ansary's view of institutional change in retailing was based on the conceptual model of organizational crisis by Fink, Beak and Taddeo (1971: 20–27). Fink et al. (1971: 17) assume that the development of organizations as well as individuals and other human systems is characterized by periods of growth and change and periods of maintenance and counter-change. An organization's adaptation to a crisis is a four phase process during which an organization goes through changes in various aspects of its organizational life. The model describes how the adaptation to a crisis has effects on the organization's interpersonal and intergroup relations, communication, leadership and decision-making, problem handling, planning and goal setting, and structure (Fink et al. 1971: 20–27). The model is not only a descriptive framework but also a predictive framework for anticipating organizational changes in crisis situations (Fink et al. 1971: 16; Stern & El-Ansary 1977: 246). The authors of the original model thought the model could be useful for organizational consultants who can use the model for analysing organizations in crises and plan remedial actions (Fink et al. 1971: 33–36).

Galbraith (1980: 111) proposed in 1952 in his theory of countervailing power that in oligopolistic markets a private economic power is held in check by the countervailing power of those who are subject to it. He argued that the countervailing power is a self-generating force which has a tendency to be organized in response to a given position of power (Galbraith 1980: 113). Galbraith observed this phenomenon in the development of several industries and markets in the US and explained it with economic reasoning. In retailing for instance powerful retail institutions like the chains stores, the mail-order houses, the

department store chains and the cooperative buying organizations emerged as a counterpart for strong manufacturers and suppliers with economic power (Galbraith 1980: 118–119; also Stern & El-Ansary 1977: 238; Etgar 1977: 97–98). According to Galbraith (1980: 130–131) the countervailing power is organized either by the buyer or by the seller in response to a stronger position in the market. The relative strength of this position depends on the state of aggregate demand so that e.g. the scarcity of demand is a prerequisite for buyers to countervail the power of sellers (Galbraith 1980: 130–131).

Time-element, context and managerial behaviour in the conflict theories

Time-element. Also conflict theories provide relatively deterministic descriptions of the retail change phenomenon. The crisis-change process and the dialectic process hypothesize that the retail change process has identifiable stages and a distinct direction. As the retail development follows the processes described by these theories, future changes and subsequent stages of the process can be anticipated. Except for analysing historical retail development, conflict theories have only limited applicability to rapid and accelerated changes in retailing. Economic explanations of the dynamics of the markets, like the countervailing power explanation, do not explicitly view retail change as a process. The predictive power of a theory (in the deterministic sense) is weak if the direction of change is not clearly stated.

Context. Especially the dialectic process and the concept of countervailing power describe retail changes at a high level of abstraction. They can be applied to describe the retail change phenomenon in many contexts if only the level of abstraction remains the same. Conflict theories have a rather narrow scope because they focus mainly on describing changes at the institutional level. The crisis-change model is more detailed than the other conflict theories. Because it includes descriptions of changes at the organizational level it can be applied to analyse changes in specific retail organizations. Its theoretical foundations emphasize factors which are typical to the organization dynamics school of thought in marketing. In spite of the fact that conflict theories in general view retail change as a result of adaptation made by retail institutional forms, they only implicitly recognize the interaction between retail

institutions and the retail environment. The dialectic process for instance has been explained partly by factors external to retail institutions (e.g. consumer wants). Conflict theories have however more similarities with the deterministic closed-system theories than with the open-system theories included in the environmental approach. The crisis-change model for instance assumes rather deterministically that the retail change in conflict situations follows through specified stages.

Managerial behaviour. Conflict theories do not explicitly take into account retail decision-makers' behaviour as a cause of retail change. This is mainly owing to the high level of abstraction and the deterministic nature of these theories of retail institutional change. This concerns the dialectic theory in the form presented by Gist (1968, 1974) and by Maronick and Walker (1978). Also other views exist. In the field of strategic management and organization studies dialectic process theories have been used to explain constructive rather than prescribed, deterministic, modes of change (Garud & Van de Ven 2002: 207–209). The crisis-change model differs from other conflict theories because its dynamic view of organizational behaviour originates from a model which was formed to conceptualize individuals' behaviour in crisis-situations. When applied to the context of retail change it cannot however provide but a deterministic view of organizational adaptation without insight into retail managers actual behaviour in such situations. The crisis-change model may provide useful practical implications when used as an analytic and diagnostic tool for management consultants as proposed by Fink et al. (1971: 33). The processes and phenomena described by the conflict theories are rather uncomplicated and therefore easily identifiable by observing and analysing retail development.

Environmental theory

Environmental theories put emphasis on the interaction between retail institutions and the retail environment (Table 3). One of the major assumptions of these theories is that the retail environmental factors have an effect on the development of retail institutions.

Table 3. Environmental theories.

AUTHOR	THEORY	DESCRIPTION
Gist (1968, 1974)	Natural selection in retailing: Adjustment theory.	Darwinian natural selection in the context of retail evolution. The adjustment theory views retail institutions as economic species which must adjust to the changing environment in order to survive.
Dreesmann (1968)	Patterns of evolution in retailing.	Biological analogies in the context of retail evolution. Dreesmann identifies patterns of convergence, hypertrophy, regression and assimilation.
Hirschman (1978)	Descriptive theory of retail market structure; Principle of natural dominance.	Four types of retail institutions form a retail market structure and differentiate themselves along price-quality dimensions and merchandising functions. The competition in the market is restricted to intralevel conflict.
Kaynak (1979)	Modified wheel of retailing concept.	Expansion of the wheel of retailing theory which takes into account the environmental factors in assisting and limiting retail institutional change, and which above all emphasizes the interaction between the retail system and the environment.
Marlin & Duncan (1981)	Conceptual framework for explaining the evolution of retail institutions.	Comprehensive framework which emphasizes the role of environmental factors, functionalism, conflict theory, and notions of evolution and adaptation.
Elgar (1984)	Retail ecology model.	Comprehensive open-system model based on biological concepts of variation, selection and retention, and mechanisms of change at each stage of the evolution process.
Roth & Klein (1993)	Ecological theory of retail change.	Theory based on the ecological open-system view. The environment determines the survival but managerial decisions influence the emergence and variation of retail types from which outcomes will be selected.

Gist (1968: 83–89) applied Darwin's theory of natural selection to explain the evolution of retail institutions. Gist argued that retail institutions are analogous with biological species. According to this view retail institutions are economic species whose ability to survive depends on their ability to adapt to changes in the retail environment comprised of customers, competitors, and a fluctuating technology (Gist 1968: 83–84). Therefore the retail institutional form which best adjusts to its environment is most likely to survive (Gist 1968: 84, 1974: 354). Gist's (1974: 353–354) adjustment theory of institutional change was based on refined notions of the natural selection in retailing. The theory contends that the general environment of a retail institution has six dimensions: social, legal, demographic, technical, cultural and economic dimensions (Gist 1974: 353). According to Gist (1974: 353) these environmental elements have an effect on consumers and marketing institutions as they shape and modify consumer preferences and cause adjustments in retail institutions. Environmental elements change consumer preferences and thus produce needs for new retail institutional forms.

Dreesmann (1968) claimed that the evolution of retail institutional types has many similarities with the evolution of biological species. He utilized the biological analogy as a

methodological aid for economic reasoning and for observing evolutionary patterns in retailing. He however explained the causes behind these evolutionary patterns with psychological, institutional and competition related factors and showed that evolutionary changes in retailing are often intentional and not so inevitable as biological analogies might assume. According to Dreesmann (1968: 64–66) retailing species are introduced in a mutation or an innovation period which is characterized by revolutionary and fast developments of retailing species. The mutation is a biological analogy to an innovation in retailing. The mutation period is followed by a long evolutionary period in which the development of retailing species occurs slowly and through many small evolutionary steps. Dreesmann (1968: 66) argued that retailing species as their biological counterparts are subject to the process of ageing. A manifestation of this process is for instance the retail institutions' propensity to trade up, an evolutionary process which is closely related to competition in retailing (Dreesmann 1968: 71–76). Using biological analogies Dreesmann (1968: 78–81) identified several patterns of evolution in US retailing. The pattern of convergence means that environmental factors cause retail institutions to converge to a common form. The pattern of hypertrophy refers to a retail development in which large retail units outgrow their economies of scale because of the temporary lack of competition in the market. The pattern of regression refers to backwards evolution and means that the general evolutionary process in fact creates possibilities to contrary developments in retailing. The pattern of assimilation is related to the mutation process in which the new retail institutions emerge. Assimilation means that old retail institutional forms transform themselves into new forms by imitating the new retail institutions.

As a part of her descriptive theory of retail market structure **Hirschman** (1978) described a phenomenon known as the natural dominance. Focusing on the existing competitive structure of retail institutions the theory itself does not provide any explicit explanation of the evolutionary processes of structural change (e.g. Hirschman 1981: 124; Hollander 1981: 88–89). Because Hirschman's theory is not dynamic, its contribution in the context of environmental theories is limited only to the identification and description of the natural dominance phenomenon. Hirschman (1978: 29–30) studied the structural and functional characteristics of the system of retail institutions and maintained that retail institutional

systems are stable over time and largely consistent from market to market. She (1978: 30–45) found that in the US retail markets different types of department stores (traditional department stores, national chain department stores and full-line discount department stores) and specialty stores form stable retail market structures with typical patterns of merchandise line, market control and restricted competition. The three types of department stores have differences in their structural characteristics and in their price and quality levels. The department stores have market dominance because they can offer customers multiple merchandise lines at close spatial proximity (Hirschman 1978: 33). The specialty stores have a classification dominance. Their market position is related to that of departments stores so that at each price and quality level there exists specialty stores serving as adjuncts to department stores (Hirschman 1978: 33). Because of their market dominance the three types of department stores form a locus of merchandise control in any market (Hirschman 1978: 36). On the basis of these observations Hirschman (1978: 41) proposed that competition among stores tends to be concentrated within levels on the price-quality continuum. Hirschman described this restriction of competition with a principle of natural dominance. She (1978: 41) argued that because the competition is restricted to interlevel conflict the department stores have a demand-generated monopoly for certain price points, quality levels and merchandise lines. The department stores have also market control because they are not genuinely competitive but in fact symbiotic and mutually supportive (Hirschman 1978: 42).

Kaynak (1979) based on the empirical findings on the relationships between the main retailing features (e.g. the existence of the self-service stores or supermarkets) and the various environmental forces in urban Turkey, proposed an extension of the wheel of retailing theory (Kaynak 1979: 241). Kaynak's model, the modified wheel of retailing concept, takes into account the environmental factors (social, economic, political, business and cultural factors; suppliers and consumers) in assisting and limiting retail institutional change. The model explicitly acknowledges and emphasizes the interaction between the retail system and the environment. The interaction is viewed as a process with outputs (goods and services) and inputs (e.g. capital and suppliers) and with its external (environment) and internal (macro managerial structure) constraints (Kaynak 1979: 242).

Markin and Duncan (1981) presented a conceptual framework for explaining the evolution of retail institutions. The framework is also known as the ecological model of retail institutional change (Brown 1987a: 8). Markin and Duncan emphasize the role of environmental factors on retail change. The main premise of the framework is that retail institutions exist in dynamic interactions with their environment and thus emerge, develop and change in direct response to their market opportunities (Markin & Duncan 1981: 61). The framework has characteristics of comprehensive combined theories. The notions of ecological evolution and adaptation are incorporated with notions from functionalist theory and conflict theory (Markin & Duncan 1981: 61–65). Markin and Duncan (1981: 63) maintain that retail institutions emerge and grow in accordance with the functions they serve. Retail change is caused by tensions between competing interests in society. The conflict caused by economic and social change is resolved through dialectic change in the form of merger (assimilation) or division (differentiation). The diversity of retail institutions can be explained by retail institutions' continuous adaptation to different surroundings. Markin and Duncan (1981: 64–65) utilize ecological reasoning and biological analogies (parasitism, symbiosis and commensalism) when arguing that the survival of a retail institution depends on its specific requirements and its tolerance to different environmental conditions. Markin and Duncan (1981: 61, 65) acknowledge the multilinear nature of retail change and claim that although being a universal process retail change is not a universal law. Retail development occurs in many different ways and at many different rates in different societies because of dissimilar environmental conditions. In their holistic framework Markin and Duncan (1981: 65) took also into account factors related to the retail institutional behaviour as they acknowledged the retail institutions leaders' role in making needed adjustments for retail institutions as a response to changes in retail environment.

Etgar (1984) analysed the emergence and survival of retail organizational forms at the macro level and presented a retail ecology model which incorporates a natural selection approach with economic and sociological approaches. In this comprehensive open-system model the retail change is viewed as a natural selection process. This process has three stages: a variation appearance stage, a selection stage and a retention stage (Etgar 1984: 50–52). In order to survive the natural selection process and to become an established member

of the retail industry new retail institutions have to fit into the environmental requirements and to utilize one or more mechanisms of change related to each stage. In the first stage of the process the mechanisms of change related to the emergence of retail institutional types are historical development, horizontal competition, vertical conflict, random factors and decision-makers' planning (Etgar 1984: 52–55). In the second stage the survival of retail institutions depends on two survival mechanisms: the retail institutions' ability to reduce transaction costs of some customer segment and the ability to improve efficiency by utilizing horizontal or vertical economies of scale (Etgar 1984: 55–58). In the final stage of the process the adaptation of a new retail institution is related to three retention mechanisms. The new retail institution can be adapted and then diffused, adapted in a modified form as a result of a dialectic process or expanded and multiplied as a result of internal expansions (Etgar 1984: 58–60).

Roth and Klein (1993) presented an ecological theory of retail change which is based on an ecological framework and an open-system view. They expressed the need to take into account both the individual decision-makers and environmental factors in the theories of retail change. The central notion of the theory is that the outcome of the retail change process at a point in time (i.e. any given retail structure) is a function of past retail behaviour (i.e. managerial decisions) and of the environment (Roth & Klein 1993: 174). Roth and Klein (1993: 174–176) define an environment as consisting of factors like the size of the aggregate population, consumers' need preferences for goods, technology and other factors over which an individual retail decision-maker has no direct influence. In this retail environment the retail stores are open subsystems which require some level of input or resources to survive (Roth & Klein 1993: 174). Roth and Klein (1993: 177–178) state that the survival of stores is related to the competition for total sales and that it depends on market potential, relative market effectiveness, internal costs of operation and costs of supply. The theory views retail change as a process which has two stages, the production of variation stage and the selection of variation stage. The theory acknowledges the retail decision-maker's role in the introduction of variation of retail stores. According to Roth and Klein (1993: 179) the environment determines the boundaries of survival of the retail store but individual decision-makers determine which stores are introduced.

Time-element, context and managerial behaviour in the environmental theories

Time-element. Environmental theories focus on describing the long-term evolutionary processes and patterns of change in retailing by using analogies adapted from biology. An exception in this sense is Hirschman's (1978) static theory which does not imply anything about the processes related to the rather specific natural dominance phenomenon. Because of their evolutionary perspective environmental theories are unable to describe or explain rapid changes in the retail markets. In general environmental theories are deterministic in viewing retail change as an evolutionary process with predictable stages. However the explicit acknowledgement of random factors and decision-maker's actions as causes to change and the acknowledgement of the multilinear nature of retail change means that the theory's ability to predict future changes is comparatively weak.

Context. All dynamic environmental theories describe changes in retailing at a high level of abstraction. In theories based on biological analogies the typical unit of analysis is a retail species, a certain retail institutional form which evolves in a broader retail environmental context. For instance the theories based on the Darwinian evolutionary framework have a broad scope. The biological analogies can be applied to describe retail change phenomenon in various contexts. All dynamic environmental theories emphasize the interaction between retail institutions and the retail environment. The comprehensive theories by Etgar (1984) and by Roth and Klein (1993) view this interaction from the open-system perspective. Hirschman's (1978) static theory has a narrower scope compared to other environmental theories. The theory assumes only implicitly the interaction between retail institutions when noting the symbiotic and supportive nature of the relationship between different stores.

Managerial behaviour. Environmental theories focus on describing and explaining the interaction between the retail institutions and the retail environment at a high level of abstraction. Direct biological analogies can provide only simplistic and inherently deterministic views of the retail change phenomenon. Owing to these reasons theories based on environmental frameworks or biological analogies cannot be used to describe or explain retail management activities or changes caused by retail managers' strategic or operative

decisions. The retail decision-makers are however taken into account both implicitly and explicitly in the environmental theories. Gist (1968) for instance emphasized the retail institutions' adjustments to the changes in the environment. Markin and Duncan (1981) recognized more explicitly the retail institutions leaders' role in making these adjustments. The decision-makers' planning was included in Etgar's (1984) comprehensive theory as one of the many mechanism of change in the variation appearance stage of the evolution process. Roth and Klein (1993) also took into account planned variation in retailing and explicitly acknowledged the decision-makers' role in introducing the variation of retail forms. On the basis on her theory Hirschman (1978) proposed some normative implications for retailers related to e.g. analysing their market positions and making retail strategies.

2.3.2. Combined theories

Two subgroups of combined theories can be identified on the basis of the theoretical elements or the component parts included in the theories. The first subgroup includes those middle-range type of theories which are based on the uncomplicated theories and formed by elaborating or integrating them. The second subgroup consists of comprehensive and complex theories which integrate elements and theoretical assumptions into broad frameworks. The combined theories are presented in Table 4.

First subgroup: the elaborations and combinations of uncomplicated theories

Gist (1968: 109–111) combined the dialectic process and the wheel of retailing theory to illustrate the possible reactions of a maturing institutional form (thesis) when attacked by an innovative institution (antithesis). Gist (1968: 110) argued that especially in situations when the mature institution wants to serve particular socio-economic segments it can ignore the innovative institution and rely on its own earlier operational characteristics. The most common alternative strategy is to emulate the attacker partially so that a new institutional form (synthesis) is formed. Gist (1968: 111) noted that the emulation can also be complete so that the mature institution becomes identical to the attacker institution.

Table 4. Combined theories.

FIRST SUBGROUP		
AUTHOR	THEORY	DESCRIPTION
Gist (1968)	Dialectic process and the wheel of retailing combined.	Expansion of the wheel of retailing theory.
Bucklin (1972)	Wheel of retailing and the intertype competition combined.	Expansion of the wheel of retailing theory.
Israeli (1973)	Three wheels of retailing hypothesis.	Expansion of the wheel of retailing theory. Israeli identifies low-end innovators and high-end innovators and conventional institutions. The cycle begins with the competition between innovators and conventional institutions and ends with an accommodation.
Hunt (1976, 1983)	Wheel of retailing and the competition for differential advantage combined.	Expansion of the wheel of retailing theory.
Mårtensson (1981)	Combined dynamic model.	Model combines the retail life cycle theory and the crisis-change model.
Laaksonen (1990)	Dynamic model of institutional evolution of retail structure.	Model combines the wheel of retailing theory, the retail accordion theory, the retail life cycle theory, the dialectic process theory and the polarization principle.
Brown (1990b, also 1988a)	Combined model of retail change.	Model integrates three cyclical theories: the wheel of retailing theory, the retail accordion theory and the retail life cycle theory.
SECOND SUBGROUP		
Nieschlag 1954. (ref. Fullerton 1986)	Theory of institutional innovation and system evolution in distribution.	Comprehensive theory of institutional innovation and system evolution. Includes (1) a process in which low-price innovations evolve through the origin and rise stage and the maturity and assimilation stage and (2) a dialectic process which changes the whole distribution system.
Alderson (1957)	Competition for differential advantage.	Comprehensive functionalist view of marketing. The competition for differential advantage is the primary force leading to innovation in marketing. The existence of a differential advantage gives the firm an ecological niche which consists of the firm's core and fringe position in the market.
Regan (1964)	Stages of retail development.	Regan identifies three stages of retail development: (1) simplex trading, (2) multiplex trading and (3) omniplex trading. Each stage is characterized by different merchandise cost and retail-service cost combinations. The framework is an expansion of the wheel of retailing theory.
Beem & Oxenfeldt (1966)	Diversity theory for market processes in food retailing.	Comprehensive theory which combines the economic theory, the Schumpeterian view of innovation and concepts of life cycle and differential advantage.
Agergård, Olsen & Allpass (1970)	Theory of spiral movement.	Retail structure at a given time is formed by external factors (e.g. population, traffic systems) and internal factors (price, service, assortment and distance parameters). The combination of the rising standard of living and the changing retail structure gives a development which can be illustrated by a spiral movement.
Guilfinan (1974)	Five-stage model of channel evolution.	Changes in the structure of a channel can be explained by changes in the strategic distribution objectives of key channel members. The model's five stages are (1) early development, (2) - (4) development of vertical marketing networks, and (5) collaborative alignments.
Deiderick & Dodge (1983)	Revised wheel of retailing.	Comprehensive theory based on the comparative dynamics view of retail change. The theory comprises of three revolving wheels in the dynamic environment: (1) the institution's geographical expansion, (2) the pricing stance and (3) the breadth of merchandise assortments. It combines the wheel of retailing theory, the environmental theory and the organizational life cycle theory.
Evans, Barnes & Schlaetz (1993)	Modes of inquiry.	General systems view of retail evolution. Evans et al. identify five assessment paradigms, i.e. ways how retail systems acquire, validate and legitimize information and events leading to change.
Sampson & Tigert (1994)	Descriptive model for the evolution of new retail forms.	Model combines the environmental theory, the retail life cycle theory and the conflict theory.

Bucklin (1972: 119–122) and later Hunt (1983: 136–138) searched for a more complete explanation for the wheel of the retailing theory and took into account the competitive

processes related to it. Bucklin emphasized the role of the price-oriented intertype competition in the wheel process. Bucklin (1972: 120–122) argued that retail firms try to avoid price competition but the appearance of a low-price firm leads to an intertype competition between the new entrants and other firms. When the number of new entrants increases they start to increasingly compete also with each other. Owing to this intratype competition the margins of the new entrants rise and the wheel process ends.

Hunt (1976: 60–61, 1983: 136–138; see also Arndt 1980: 97–98) noted the parallelism between his integration of the wheel of retailing with the competition for differential advantage and the views presented by the economist J. M. Clark in the 1950s, by Alderson (1957) and by Bucklin (1972). Hunt used the low-cost, low-price and low-status budget motels as examples to describe the nature of competition in the wheel process. According to Hunt (1983: 137–138) retail institutions enter a market because they have differential advantages over existing retail forms. Motels competed first against the existing hotels but as the number of motels increased the competition changed from the intertype to intratype competition. Hunt (1983: 138) argued that because the price reductions would be neutralized most easily and quickly by the competitors, the upgrading of services and facilities are referred to as a means to gain differential advantage. The motel industry gradually increased its costs and margins as each motel tried to neutralize the differential advantage of its competitors by introducing similar services and facilities (Hunt 1983: 138).

Izraeli (1973) presented an expansion of the wheel of retailing theory. He proposed in his three wheels of retailing hypothesis that in addition to the low-price and low-service innovative institutions (i.e. low-end innovators) there are innovative institutions (i.e. high-end innovators) which start with comparatively high levels of prices and service, and which later downgrade (Izraeli 1973: 70). He took also into account the conventional institutions as the third source of change. Izraeli incorporated these three institutional types into an expanded theory of institutional change and depicted them with three revolving wheels. The first wheel represents low-end innovative institutions, the second wheel high-end innovative institutions and the third wheel established conventional institutions located in the middle (Izraeli 1973: 70). The process has three stages (Izraeli 1973: 70–72). In the first stage of

the process low-end innovative institutions and high-end innovative institutions relying on new trading methods emerge in the market. The innovative institutions and the conventional institutions affect each other's behaviour so that in the second stage of the process the low-end innovative institution upgrades, and the high-end innovative institution downgrades its services and prices while the conventional institutions imitate the innovative institutions. The process ends with an accommodation in the third stage of the process when the innovative institutions have become integral parts of the retail establishment. After a period of relative stability in the marketing channels, new innovative institutions emerge and a new cycle in the three wheels of retailing starts again. Izraeli (1973: 73) argued that the three wheels of retailing hypothesis explains the penetration of all retail institutions in any country whose legal framework allows competition and that it is valid for any level of economic development. Izraeli (1973: 72-73) used e.g. the development of department stores in England and in the US as examples of the three wheels of retailing process.

Mårtensson (1981: 43-54) presented a combined dynamic model which integrated the retail life cycle theory and the crisis-change model. The model describes phase by phase both the development of an innovative retailer and the reactions of the conventional retailers when an innovator has entered the market. The model includes the phases of the two original models but does not view the process as completely deterministic. Mårtensson (1981: 53) argued that not all firms pass through all the phases and that the time-span between phases varies depending on the firm and the country. Mårtensson (1981: 51-52) expanded the scope of the crisis-change model by applying it to describe the reactions of different groups of organizations in the context of different countries. The combined dynamic model assumes that there is a constant chain of interaction between the innovator and the conventional firms in the market and that this chain of reactions is started by the actions during the first (innovating) phase of the process (Mårtensson 1981: 52-53). Mårtensson used the model to describe the development of the multinational retail chain **IKEA**, its diffusion to international markets and the reactions of conventional retail firms when faced with the innovator.

In his exploratory study **Laaksonen** (1990) analysed the adaptation of small Finnish retail outlets to the changing competitive environment. In order to identify the position of the

small local stores in the context of the general evolutionary process of retailing Laaksonen created a hypothetical model at a high level of abstraction. The general dynamic model of institutional evolution of retail structure combines the wheel of retailing theory, the retail accordion theory, the retail life cycle theory, the dialectic process theory and the polarization principle (Laaksonen 1990: 15–18, 57–61). The partial theories included in the model represent specific identifiable stages of the general evolutionary process and describe the development of retail institutional types.

Brown (1990b: 51) argued that the wheel of retailing, the retail accordion and the retail life cycle theories are partial and incomplete because they describe only a single dimension of the retail change. He formed a more comprehensive model by integrating these three cyclical theories into a combination theory of retail change. The theory includes the price-quality dimension (price led - quality led), the product range dimension (narrow-wide) and the stages of the retail life cycle (birth, growth, maturity, and decline). The model is influenced by Brown's (1988a) earlier research on the strategic life cycle concept which, in addition to explicitly integrating the three aforementioned theories, acknowledged the four generic strategies (cost focus, cost leadership, differentiation and differentiation focus), of Porter's model of competitive strategy (Brown 1988a: 9–10). Brown's (1990b) combined model of retail change describes how a retail institution starts as a price-oriented narrow range institution which during the growth stage trades-up and widens its product ranges. When it reaches its maturity it becomes more quality-oriented. In the final stage the institution maintains its quality orientation but narrows its product ranges. Brown applied the combination theory to describe the development of the retail warehouse institution in the UK. Brown (1990b: 52) argued that the theory can be used as a conceptual benchmark when evaluating the emergence and evolution of retail innovations.

Second subgroup: the more comprehensive combined theories

Nieschlag's (introduced in 1954, expanded in 1959, updated by Nieschlag and Kuhn in 1980, ref. Fullerton 1986; see also Dawson 1979: 187–188) theory of the evolution of distribution institutions and systems, also known as the dynamic of institutional forms, is one

of the most comprehensive theoretical frameworks among the theories of retail change. Nieschlag's theoretical approach is interdisciplinary and integrative. The theory combines theoretical and methodological assumptions and concepts from the disciplines of economics, history, historical sociology and marketing (Fullerton 1986: 273). The theory contends that longitudinal evolution of distribution systems in western economies can be explained with two closely related phenomena which follow lawlike patterns across large spans of time (Fullerton 1986: 275). These phenomena are the development of new low-price institutions, and the impact of these institutions on the distribution system (Fullerton 1986: 275). The development of new institutions has two stages: the origin and rise stage in which the institutional innovations are introduced by entrepreneurs and the maturity and assimilation stage in which the institution trades-up and assimilates into the mainstream of the distributive trades (Fullerton 1986: 275-278). Nieschlag explained the development towards maturity and assimilation with environmental-external and attitudinal-internal constraints, that is factors which restrict the innovator's expansion (Fullerton 1986: 276-277). Nieschlag views the trading-up as a general behavioural tendency and claims that it is irreversible so that an institution cannot change the direction of its evolution (Fullerton 1986: 277). The low-price institutions have an effect on the whole distribution system and the established distributive institutions. At first the system bifurcates into a progressive and a conventional part, but as a result of mutual learning and assimilation the aggressive price competition between new and old institutions ceases (Fullerton 1986: 278-279). The conflict between these institutions follows a dialectic thesis-antithesis-synthesis process. Each repetition of the dialectic process produces a new synthesis which involves an evolutionary, incremental development of the whole distribution system (Fullerton 1986: 279).

Alderson's (1957) theory of marketing with its theoretizations and concepts related to organized behaviour systems and the competition for differential advantage have been used to explain retail change (Hunt 1983: 136-138; Brown 1987a: 23-24; Evans, Barnes & Schlacter 1993: 87-88). These theoretizations, also known as the core-fringe model of retail change or the core-fringe hypothesis (e.g. Evans et al. 1993: 87-88), illustrate Alderson's functionalist and cultural ecological perspectives to analyse the complexity of marketing systems (see also Alderson 1964; Monieson & Shapiro 1980: 7-8). The dynamic process of

competition for differential advantage is one of the central concepts in Alderson's general theory of marketing (for a formalization of the theory see Hunt, Muncy & Ray 1983: 318–119). This process accounts for the emergence of innovations in marketing and the competitive behaviour between firms. The differential advantage of a new firm provides also market entry possibilities for other competitors as they e.g. copy the marketing strategies of the new firms (Hunt et al. 1983: 318). The competitors attempt to neutralize the differential advantage of the new firm with e.g. price reductions (Hunt et al. 1983: 139; Alderson 1957: 108–109). The firm's ability to survive this neutralization process is related to its ecological niche or its position in the marketplace, consisting of the core and fringe parts of the firm's environment (Hunt et al. 1983: 319; Alderson 1957: 56). According to Alderson (1957: 56) the core refers to the part of the environment which is most completely suited to the operations of the individual organism or a group while the fringe refers to the part of the environment in which the individual or group can still operate but at a lower efficiency (Alderson 1957: 56–58; Hunt et al. 1983: 319). The two main determinants of the firm's survival in the process of competition are the firm's ability to exist at its core position although it might lose its fringes and the firm's ability to exhibit plasticity, i.e. to be able to reshape behaviour when faced with environmental changes causing the firm's original functions to disappear (Alderson 1957: 56–58; Hunt et al. 1983: 319).

Regan (1964) focused on the structural and functional components of retailing, especially on the different forms of retail value-added or services, and the changes related to these factors. He presented a tentative structural theory of retailing which identifies different stages of retail development with different combinations of goods and services offered by retailers. Regan's theory, also known as the three stages of retail development, or the simplex-omnipler theory of retail institutional change (Brown 1987a: 24–25), expands the wheel of retailing theory by taking into account explanatory factors related to e.g. customers, competition and management actions. According to the theory retailers differentiate themselves by making different merchandise and retail-service combinations. Depending on the preferred market, a retailer can combine relatively high, average or relatively low manufacturers' product costs to relatively high, average or relatively low retail-service costs (Regan 1964: 142). The theory maintains that there are three stages of

retail development related to the alignment of the merchandise and retail-service variables: simplex trading, multiplex trading and omniplex trading (Regan 1964: 143–147). In the simplex trading stage most retailers serve their market segments by operating only at one merchandise cost and service cost level. A retailer moves to the multiplex trading stage if it changes its merchandise and retail-service combinations to attract new markets. These changes can be related to changes in the merchandise assortments (trading-up, trading-down, or trading-up and trading-down simultaneously) or changes in the retail-service costs (moving costs up, moving costs down, or moving costs up and down simultaneously). In the omniplex trading stage a retailer can offer customers any possible merchandise and retail-service combination. They can also combine the different levels of merchandise costs to a manufacturer's or a wholesaler's distribution costs (Regan 1964: 146).

Beem and Oxenfeldt's (1966) diversity theory for market processes provides an elaborated and complex view of the dynamic nature of market processes in the American food retailing market. The theory is an expansion of the traditional economic theory explaining the market processes in oligopoly markets. Unlike the traditional economic theory, which focuses mainly on price competition, the diversity theory emphasizes the diversity of market processes and views the various forms of non-price competition as central features of modern markets (Beem & Oxenfeldt 1966: 89). This comprehensive theory has a combined character because it includes assumptions related to the economic theory, the Schumpeterian view of innovation, the concept of life cycle and Alderson's (1957) concept of differential advantage (Beem & Oxenfeldt 1966: 78). The theory for instance assumes that most markets pass through both long cycles which are caused by the changes in institutional arrangement and short cycles which are started by aggressive sellers striving for competitive advantage (Beem & Oxenfeldt 1966: 78). The theory also identifies the various forces which disequilibrate and equilibrate the market processes. The disequilibrating forces are related to the diversity and change of buyers and sellers, the opportunities for institutional change, the opportunities for competitive advantage, the quest for market niches, and the retaliation by competitors as a response to aggression (Beem & Oxenfeldt 1966: 78). The equilibrating forces are related to the imitation as a response to aggression, and profit erosion (Beem & Oxenfeldt 1966: 78). Beem and Oxenfeldt (1966: 84–91) applied the theory to explain the

wheel of retailing phenomenon i.e. the alternating cycles of price and non-price competition in the American food retailing market since the early 1900's. According to them the wheel of retailing has four stages: the emergence of a new retail institution based on low cost and low price, the imitation of innovators by other food retailers, the emergence of non-price competition, and the effect of non-price competition on gross margins (Beem & Oxenfeldt 1966: 84). According to Beem and Oxenfeldt (1966: 84) the diversity theory can be used to predict developments and changes in food retailing. They stated that the theory is also useful in decision-making. It can help the decision-maker to identify the position of the firm and the key elements affecting revenue and cost, for instance when planning alternative marketing strategies (Beem & Oxenfeldt 1966: 91-95).

Agergård, Olsen and Allpass (1970) analysed the retail structural change from the retail planning perspective in the broader context of the structure of urban regions. They proposed a theory of spiral movement to explain the changes in the structure of retailing and in the urban centre structure and to provide a new basis for the planning and forecasting of these changes (see also Dawson 1979: 188). The theory emphasizes the role of the external and internal factors in the development of retail and centre structure and maintains that there is an interaction between these factors. The external factors refer to e.g. population, income and traffic systems, and the internal factors refer to the four parameters (price, service, assortment and distance) used by retailers to obtain the best possible competitive position in the marketplace (Agergård et al. 1970: 55). The central assumption of the theory is that the combination of the rising standard of living and the changing retail structure, results in a development which can be illustrated by a spiral movement so that the new types of shops are established to fill the same function in the structure as the previous shops, but on a higher level with regard to prices, quality, and location (Agergård et al. 1970: 61). Agergård et al. (1970: 69-71) argued that the spiral form of the development and the interaction between the external and internal forces should be taken into account when forecasting future changes in the retail and centre structure. Therefore instead of simply projecting previous trends, more emphasis should be placed on the stage-planning which acknowledges the step-like spiral nature of the development (Agergård et al. 1970: 70). Agergård et al. (1970: 61-64) regarded for instance the growth of the superette type of bantamstores, and

the non-food discount houses in the American retailing market as manifestations of the development described by the spiral movement.

Gultinan (1974: 80–86) claimed that a more comprehensive account of the stages of development, the rate, the direction and the consequences of the future channel evolution can be achieved by integrating the various explanations related to the constraints on evolutionary behaviour, and the changes in the distributive institutions, channel functions and channel members' relationships. Gultinan's five-stage model of channel evolution (also known as the channel stage theory (Brown 1987a: 24)) provides a synthesized view of the determinants of structural change in the channel both at the macro and micro levels of analysis (Gultinan 1974: 80). The theory assumes that distributive innovations are developed by individuals and/or firms and influenced by market forces related to consumers and competitors (Gultinan 1974: 80, 87). The model explicitly acknowledges the decision-maker's role in the channel evolution when asserting that changes in the structure of channel can be explained by changes in the strategic distribution objectives of key channel members (Gultinan 1974: 87). According to Gultinan (1974: 87) the causes for the changes in these objectives are related to institutional obsolescence, inefficient functional performance, and/or conflict. The channel objectives change during the five stages of the channel development (Gultinan 1974: 87–89). The channel evolution starts with an early development stage in which the channel objectives are related to the development of contracts and communications with ultimate buyers. The three following stages describing the development of vertical marketing networks can occur in any sequence. The channel objectives in the second stage are coverage and/or capacity, in the third stage control, and in the fourth stage cost. The final, fifth stage of the channel development is related to collaborative alignments in the channel. In this stage the major channel objectives are cooperation and/or consolidation. Gultinan (1974: 90–91) argues that the rate of change is influenced by two sets of factors: factors which favour a fast rate of change (e.g. rapid changes in consumer lifestyles) and factors which favour a slow rate of change (e.g. increased economic concentration). The direction of change depends among other things on the economies of scale, the locus of control and the customer demand available for channel members (Gultinan 1974: 90–91). Gultinan (1974: 91, 103) claims that the development

proposed by the model would possibly lead to on the one hand a distribution flow characterized by centralized and programmed distribution of relatively standardized products and services and on the other hand to a dynamic distribution flow dealing with goods and services that are frequently changed to meet the changing consumer needs.

Deiderick and Dodge (1983) presented an elaboration of the wheel of retailing theory based on the comparative dynamics view of retail change. They (1983: 149) proposed a concept of interacting revolving wheels in a dynamic environment in order to provide a more systematic approach to the general theory of retailing. The revised wheel of retailing by Deiderick and Dodge (1983: 149) is based on an assumption that a change in an individual retail institution is the combined result of competitive positioning in terms of several dimensions. The main hypothesis is that an evolutionary change in retailing results from a series of adjustments of institutional dimensions to the changes in the marketplace (Deiderick & Dodge 1983: 149). Each dimension, the geographical expansion, the breadth of product line and the pricing, is depicted with a wheel (Deiderick & Dodge 1983: 150). The theory asserts that a retail institution begins with a central location but later extends its operations into other geographical markets. Retail institutions enter the market with a narrow product line, then broaden and finally diversify their product lines. The theory assumes also that a retail institution's pricing stance changes through three stages: discount pricing, competitive parity and premium pricing (Deiderick & Dodge 1983: 150). The theory acknowledges the time-element in two ways. It states that the dynamics of the wheel of retailing results from the changes in the consumer and in the organizational life cycle (Deiderick & Dodge 1983: 150–151). According to the theory the continuous changes related to marketplace and consumers' life conditions are caused by the changes in the social, economic and technological environments (Deiderick & Dodge 1983: 151). The theory describes the changes in the organizational life cycle with five stages: creation, growth, maturity, drift, and decline or regeneration (Deiderick & Dodge 1983: 151).

Evans, Barnes and Schlacter (1993) analysed the retail institutional change from the existing retail institution's perspective. The framework proposed by Evans et al. (1993: 81) is influenced by the general systems theory and based on the open-system inquiry. Evans et

al. (1993: 81, 89) maintained that the different theories of retail change provide explanations of how retail institutions respond to changes in the marketplace and how they acquire information leading to change. The framework emphasizes the systemic properties of a retail institution, which is viewed as an open, living and goal-oriented behavioural system capable of interaction with systems external to itself in an environment (Evans et al. 1993: 82). The systems observe and monitor their environment in order to find environmental cues related to events or information, which might represent a threat or an opportunity to the system (Evans et al. 1993: 82). A new retail form becomes a change agent when it is viewed by the system as a competitive threat or a competitive opportunity (Evans et al. 1993: 88). According to Evans et al. (1993: 89–94) a system may validate and legitimize the change agent in five ways. The Lockean mode of inquiry refers to inductive assessment of information in which legitimacy is determined by reducing complex phenomena to simple empirical observations (an example: crisis-change model). The Leibnizian mode of inquiry refers to theory-driven, deductive assessment of information (an example: wheel of retailing theory). The Hegelian mode of inquiry refers to a deductive assessment of information in which legitimacy is achieved by examining opposite viewpoints (an example: dialectic theory). The Kantian mode of inquiry utilizes complementary a priori models to create a synthesis of alternative viewpoints (an example: core-fringe theory). The Singerian-Churchmanian mode of inquiry refers to the use of different modes in the assessment of information so that each mode represents a stage in the process towards the legitimization or the denial of the information (an example: Darwinian evolution).

Sampson and Tigert (1994) studied the evolution of the warehouse membership club industry in North America and found that the combination of the three theories of institutional change was needed to describe the evolution of this retail innovation. They presented a descriptive model for the evolution of new retail forms which combines the environmental theory, the retail life cycle theory and the conflict theory (Sampson & Tigert 1994: 45–57). The environmental theory included in the model claims that the environmental conditions (economic, technological, legal, social, political and demographic conditions) create opportunities for innovations to begin and flourish (Sampson & Tigert 1994: 54–56). The development of an institutional innovation is depicted with a retail life cycle based on

the revised wheel proposed by Deiderick and Dodge (1983). Thus in addition to the four stages of the retail life cycle (embryonic, growth, maturity and decline), the model describes also changes related to an institution's prices, product lines, geographic expansion and managerial response (Sampson & Tigert 1994: 56). The conflict theory describes how the existing retail institutions behave when faced with new institutional innovations. The conflict view of the model is based on the theory by Stern and El-Ansary (1977), which states that retail institutions' adaptation process has four stages: shock/denial, defensive retreat, acknowledge and adapt, and readjust. According to the model customers have an influence on three parts of the model (the environment, institutional innovation and the existing retail institutions) (Sampson & Tigert 1994: 57). The model maintains also that the three parts are also interacting with each other because of the responses and effects between them (Sampson & Tigert 1994: 57).

Davies (1998) provided an elaborated view of retail change based on the assumptions of evolutionary and environmental theories (e.g. by Roth and Klein 1993), and neo-classical economic theories emphasizing knowledge (e.g. the resource-advantage theory of competition by Hunt and Morgan 1996). Davies (1998: 169–170) makes a distinction between two scales of analysis. The macro scale refers to a design space, a retail environment in which retailing operates and which offers opportunities for, and constraints on, new development, while micro scale refers to changes in particular retail forms as a response to the macro level changes (Davies 1998: 169). The design space consists of environmental factors related to population, the need structure for goods, income, technology, government regulation and social/cultural factors (Davies 1998: 169–170; Roth & Klein 1993: 174–175).

Davies (1998: 172) claims that retail firms use knowledge and information when adapting to their local environment. A distinction is made between changes related to retail firms and retail formats. Retail firms evolve relatively slowly with the environment while retail formats compete at the local level and try to adapt to the local environment (Davies 1998: 172). Davies (1998: 173) states that retail evolution is constrained by context: the same set of initial conditions may give preferred outcomes, not random outcomes. Davies's (1998: 173)

view of change can be described with the punctuated equilibrium paradigm which maintains that relative long periods of stability (equilibrium), are punctuated by compact periods of qualitative, metamorphic change (revolution) (see also Gersick 1991: 11–12). During the periods of upheaval the number and variety of formats change even though the firms involved may remain the same (Davies 1998: 172). According to Davies (1998: 175–176) it is impossible to predict the specific mechanism of change at the micro level because the mechanism of change varies depending on the local environment or context. Davies emphasizes the retail decision-maker's role in the retail evolution. Davies (1998: 176) maintains that retail change includes cycles of decisions in response to change in the environment. Davies's view of change includes also assumptions related to competition and strategies utilized by firms when adapting to the changes. This conflict view is based on the organizational ecology view proposed by Hannan and Freeman (1989: 118) who argue that the selection among populations using different life history strategies depends on the volatility of the environment. Two forms of firms and strategies can exist in any design space: the r-strategy and the K-strategy (Davies 1998: 176–178; Hannan & Freeman 1989: 118–119). An opportunistic r-strategy is the preferred strategy in a dynamic environment when there is need to maximize the system's response to changes in the environment. K-strategies are used in a static environment, i.e. when the change is slow and predictable, by firms which are slow in taking advantage of change.

Time-element, context and managerial behaviour in the combined theories

Time-element. In general the two subgroups of combined theories have rather dissimilar assumptions about the dynamics of retailing. The elaborations and combinations of the uncomplicated theories in the first subgroup were formed to provide more comprehensive theoretizations and descriptions of retail change. However owing to the assumptions about the cyclical patterns and the stages of development included in the theories, the view provided by these theories has the same deterministic nature as their uncomplicated partial theories. The theories focus mainly on describing the longitudinal developments in retailing. They put less emphasis on the rapid revolutionary changes. Abstract theories emphasizing the evolutionary aspects of retail change are not sensitive to the rapid changes in the retail

markets. The predictive power of these theories is related to the assumptions about the repetitive occurrence of the stages of development proposed by the theories. The second subgroup of theories include comprehensive and complex theories and frameworks (e.g. those by Guiltinan 1974, and Davies 1998) which take into account the decision-maker's role in the retail change. This means that retail change is not viewed as a deterministic process. The theories based on the open-system view are able to take into account the random factors, and the revolutionary and evolutionary aspects of retail change. Many of the theories in the second subgroup assume that the retail change has specific stages, even though the sequence of the stages and the direction of change could not be determined.

Context. Combined theories provide a rich view on the different aspects of the retail change phenomenon (e.g. the functional, structural, economic and environmental dimensions of the retail change phenomenon). This richness is related to the scope of the theories. In the first subgroup of theories the broad scope is achieved for instance by extending the previous theories (e.g. theories by Izraeli 1973, and Hunt 1983), taking into account more dimensions of retail change (e.g. model by Brown 1990b), and explicitly integrating the existing uncomplicated theories (e.g. theory by Mårtenson 1981, and Laaksonen 1990). These kind of elaborations of the uncomplicated theories are mainly used to describe the evolution of a specific retail institution in a specific context. The second subgroup of theories includes comprehensive theories and frameworks. There are theories which are explicitly based on the uncomplicated theories (e.g. theory by Deiderick and Dodge 1983, and Sampson and Tigert 1994) and theories which integrate theoretical elements from marketing and various other disciplines (e.g. theory by Nieschlag 1954, ref. Fullerton 1986, and Alderson 1957). Sampson and Tigert's (1994) model for instance consists of cyclical, conflict and environmental partial theories. Nieschlag's theory describes the evolution of distribution systems and the retail institutions, and depicts also e.g. the wheel and dialectic processes involved. The core-fringe model, the integral part of Alderson's (1957) general theory of marketing, has been applied to explain the emergence of retail innovations and the retail institutions search for differential advantage. The comprehensive combined theories describe retail change at a high level of abstraction. Most of the combined theories (e.g. those by Beem and Oxenfeldt 1966, Agergård et al. 1970, Deiderick and Dodge 1983, and Sampson

and Tigert 1994) take into account the interaction between retail institutions and the retail environment. Evans et al. (1993) acknowledge explicitly this interaction in their framework which is based on the open-system inquiry.

Managerial behaviour. Theories and frameworks based on the open-system view explicitly recognize the retail actors' role in retail change. This means that retail change is not viewed as a deterministic process but as a process which can be managed and influenced by retail managers. Guiltinan (1974) for instance viewed retail change as a result of strategic distribution objectives of channel members. Because of the level of abstraction and the scope of the theories, the comprehensive theories (e.g. by Nieschlag 1954, ref. Fullerton 1986) do not and are not intended to propose explicit managerial implications. However, these kind of theories do not totally lack managerial relevance. For example the theoretical framework proposed by Evans et al. (1993) with its emphasis on the existing retail institutions' behaviour can be used by retailers to recognize what is the dominant mode of inquiry related to particular change agents in the retail marketplace. Thus the theories can also have managerial relevance in terms of their descriptive and/or analytical nature. Some theories (e.g. by Beem and Oxenfeldt 1966, and Brown 1990b) are meant to be used as tools in analysing retail change. A retail planning perspective was explicitly adopted in the theory proposed by Agergård et al. (1970).

2.3.3. Conclusions

The review of the theories and the analysis of the approaches from the time-element, context and managerial behaviour point of view were done in order to identify the most promising theoretical approach and the theoretical foundations for modelling the dynamic phenomenon of the retail institutional change. The rich body of theoretical thought in form of various theories, models and frameworks was classified into two classes: uncomplicated and combined theories. This classification was used because it acknowledges one of the most essential aspects of theory development in the field of theories of retail change: the more comprehensive theoretizations of the retail change phenomenon have been formed by explicitly combining partial theories from cyclical, conflict and environmental approaches.

This combination of partial theories has resulted in theories (e.g. theory by Sampson and Tigert 1994) which not only describe the evolution of retail institutions but also take into account the behaviour of the existing retail institutions and the environmental conditions required for retail innovation.

The cyclical, conflict and environmental approaches are not regarded in this study as mutually conflicting because each approach focuses on particular aspects of retail evolution. The approaches are not internally homogeneous. The review of the theories showed that even within a single theoretical approach there are theories which differ much from each other. These differences are mainly related to the various perspectives (e.g. functional, retail planning, economic etc.) and theoretical assumptions applied in the theories and the different purposes for which the theories were originally formed. The internal richness of the theoretical approaches results also from the differences in the scope and levels of abstraction utilized in the theories. For instance there are differences between the middle-range type of combined theories and the comprehensive theoretical frameworks (e.g. those by Nieschlag 1954, ref. Fullerton 1986, and Alderson 1957) which are based on and influenced by theoretical assumptions from many disciplines. The differences between the two subgroups of combined theories illustrate also that the internal richness of the theoretical approaches is also related to the different ways and logical foundations on which the theories are formed.

The analysis of the theoretical approaches from the time-element, context and managerial behaviour point of view showed that each approach differs from the others in terms of these three factors. Next these differences and the dominant assumptions proposed by the approaches are first summarized factor by factor. Each summary is followed by conclusions about the most promising assumptions related to the factor concerned. It must be noted here that although the time-element, context and managerial behaviour have been analysed separately, they are not independent but closely related to each other. The choices and decisions made concerning one factor restricts and limits the choices of the other factors (see also section 3.3.). Thus the interrelationship between the three different factors have to be taken into account when drawing conclusions and selecting the theoretical foundations for modelling retail change.

Summary - Time-element. The dynamic nature of the theories was analysed mainly in relation to the deterministic or the open-system nature of the theories, their assumptions about the stages of development, and the long-term or short-term view proposed by the theories. Most of the cyclical and conflict theories view retail change as a deterministic process in which repetitive stages and patterns of change can be identified. They mainly account for the long-term changes in retailing. The predictive power of the cyclical and conflict theories is based on their deterministic view of change. Environmental theories describe the long-term evolutionary changes in retailing. Some of these theories are based on the open-system view. This means that retail change is not regarded as a deterministic process and that the retail change phenomenon cannot be understood by examining only the long-term evolutionary changes in retailing. The short-term evolution with rapid changes in the retail environment and the variety of retail forms introduced by retail actors have also an effect on the retail development. In the combined theory approach two main assumptions about the dynamics in retailing can be identified. The first is the deterministic view proposed by those theories which are elaborations and combinations of uncomplicated theories. The second is the open-system view which is adapted especially in the comprehensive theories and frameworks emphasizing the environmental determinants of retail change. It seems that from the time-element point of view the theories have evolved from the deterministic theories towards open-system theories which take into consideration both the evolutionary and revolutionary aspects of retail change.

Conclusions - Time-element. Both the longitudinal evolution of retail institutions and the short-term rapid changes caused by retail managers have an effect on the current retail developments. The longitudinal analysis of retail change is related to the past developments in retailing whereas the analysis of the rapid changes is related to the present actions of retail managers. Theories and models for describing past changes in retailing cannot be used to describe and explain the future changes in retailing. The deterministic view of change proposed by most of the uncomplicated theories is rejected in this study. The reason for this is that the prediction of retail change is not possible in the deterministic sense. When analysing longitudinal changes in retailing and the processes which have caused for instance the present retail structure it is however important to be able to specify and identify the

stages of the retail change process. The analysis of managerial behaviour requires that the time-element is taken into account differently. A much shorter time-span in the analysis of retail change is needed because the changes take place during short (revolutionary) time periods. The deterministic theories cannot be used in this kind of analysis because they are not sensitive to rapid changes. Promising theoretical assumptions about the short-term dynamics in retailing can be found among the theoretical contributions of combined theories which acknowledge the open-system interaction between retail institutions and the retail environment and take also explicitly into account the behaviour of retail decision-makers. Davies (1998) for instance applied the punctuated equilibrium paradigm to explain both the evolutionary (long-term) and the revolutionary (rapid) changes in retailing.

Summary - Context. The scope of the theories, and the theoretical assumptions about the interaction between retail institutions and the retail environment were the key factors in the analysis of the approaches from the context point of view. Cyclical theories have a relatively narrow scope. They mainly describe and conceptualize the evolution of retail institutions and the repetitive patterns related to institutional characteristics. Cyclical theories are closed-system theories which only implicitly if not at all take into consideration the interaction between retail institutions and the retail environment. Also conflict theories have a relatively narrow scope because they focus on describing the change of retail institutions in conflict situations. Conflict theories do not explicitly acknowledge the interaction between retail institutions and the retail environment although they recognize the relationship between the conflicting institutional forms. Some conflict theories (e.g. the dialectic process) describe retail change at a high level of abstraction. The dominant characteristics of the environmental theories are their high level of abstraction, their broad scope and their assumptions about the open-system interaction between retail institutions and the retail environment. Because of their high level of abstraction, environmental frameworks (e.g. the Darwinian view of change) can be applied to describe retail evolution in many contexts. In the group of combined theories there are theories describing retail development in a specific context but also comprehensive theories which have characteristics of general theories of marketing. The interaction between retail institutions and the retail environment is explicitly acknowledged in most of the combined theories. The elaborations and combinations of the uncomplicated

theories are however rather deterministic and thus differ from those combined theories which are based on the open-system view.

Conclusions - Context. The direction of the theory development in the field of retail change has been from uncomplicated descriptions of retail development towards more comprehensive theoretizations and combined theories. Thus there are both context dependent middle-range type of theories with relatively limited scope and theoretical frameworks with broad scope. From the context point of view the central focus here is not related to the maximization of the scope of the theory or to the formation of a comprehensive general theory of retail institutional change. It is assumed in this study that it is possible to identify patterns, processes and stages of development which have occurred in similar ways in different contexts. This does not mean however that it would be possible to state general lawlike assumptions about the future direction of the retail development or create theories which could account for retail change in all possible contexts. The central focus of this study from the context point of view is to examine how theories of retail change could be more sensitive to changes in the context. This means that not only the contextual similarities but also the contextual differences in the retail development should be taken into account when modelling the retail change phenomenon. We have seen that most theories reviewed in this study are descriptions of retail development in the western economies, especially in the US and the UK. The descriptive theories provide rich views about the longitudinal processes which have led to the present retail structure. It is assumed in this study that more emphasis should be put on those contextual factors which cause variation in retail managerial behaviour, and on those contextual and environmental factors which on the one hand restrict retail change and which on the other hand favour retail change. This cannot be done by relying on the assumptions based on the deterministic uncomplicated theories. The most promising in this sense are those theories which emphasize the open-system nature of retail change and acknowledge the interaction between retail institutions and the retail environment. It is assumed in this study that in order to understand the contextual factors and the aforementioned interaction there is a need to discuss the boundaries of retail institutions, retail systems and the retail environment.

Summary - Managerial behaviour. The analysis related to managerial behaviour focused on examining whether the theories implicitly or explicitly acknowledge the retail actors' or decision-makers' active role in the retail institutional change. Theories based on deterministic assumptions cannot explain retail changes which are caused by retail decision-makers' actions. In most of the cyclical and conflict theories the managerial behaviour is taken into account more or less implicitly. In spite of this, as we have seen in the review of the theories, cyclical and conflict theories can have pragmatic and managerial value. For instance the retail life cycle model provides normative managerial implications. Most of these theories describe retail changes at a low level of abstraction, which is required to use them as frameworks for analysing and understanding the retail change e.g. in conflict situations (e.g. the crisis-change model). Abstract environmental theories focusing on environmental factors and evolutionary processes in retailing cannot provide detailed managerial implications. There are however theories which only implicitly take into account the decision-makers' behaviour (e.g. theory by Gist 1968) and theories in which these assumptions are more explicit (e.g. the theories based on the open-system view by Etgar 1984 and by Roth and Klein 1993). The most promising assumptions related to managerial behaviour are found among the combined theories. Our main interest here are those assumptions which are inherent to the open-system view acknowledged in the theories. Although most of the combined theories have broad scope and a high level of abstraction (e.g. theory by Nieschlag 1954, ref. Fullerton 1986) there are however theories which are recommended for analysing retail change (e.g. theory by Beem and Oxenfeldt 1966, and by Brown 1990b).

Conclusions - Managerial behaviour. From the managerial behaviour point of view the most promising theories are those which explicitly acknowledge the retail decision-makers' active role in the retail institutional change. It is assumed in this study that retail decision-makers have a great influence on the retail institutional change. The deterministic theories can be used to describe what has happened in the past but they cannot be used to describe what will happen in the future. It has been noted earlier that the open-system view of change is needed to understand the interaction between the retail institutions and the retail environment. The open-system view of change is also important from the managerial behaviour perspective because it takes into consideration both the revolutionary and

evolutionary aspects of the retail change phenomenon. From the managerial behaviour point of view the revolutionary aspects of the retail change process are much more interesting than the evolutionary aspects of this process. It is assumed in this study that by putting more emphasis on the revolutionary aspects of retail change it would be possible create theories which provide more a sensitive account of changes caused by actions of retail decision-makers. In that way it could be also possible to take into consideration the different factors related to the management of the retail institutional change. It is also assumed in this study that it is essential to examine those factors related to managerial behaviour which restrict and favour retail change.

Selection of appropriate approach. The objectives of this study cannot be reached on the basis of the theoretical assumptions provided by a single theory or by an uncomplicated approach. The reason is because the main interest in this study is not on a single aspect of retail change but on three factors (time, context and managerial behaviour) and their role in the retail institutional change. Therefore, instead of a single uncomplicated approach, the combined approach is chosen as a starting point for modelling the retail institutional change. There are several reasons for this selection. The combined approach is the most promising approach because it makes it possible to combine different theoretical approaches, assumptions and levels of analysis. This approach acknowledges the development, elaboration and combination of partial theories to form more relevant and holistic theories. The combined approach includes also the most promising assumptions related to the three central factors of this study, an explicit acknowledgement of the central role of managerial behaviour and the open-system view.

What is needed in the theories of retail change from the time-element, context and managerial behaviour point of view? Although the theories of retail change provide a rich view of the different aspects of the retail change phenomenon, there are several factors related to time-element, context and managerial behaviour which should be examined before the objectives of this study can be reached. The first of these factors is related to one of the main assumptions of this study, namely the acknowledgement of the dynamic interaction between retail institutions and the retail environment. The present approaches do not provide

adequate tools for analysing the interaction between retail institutions and the retail environment. The main theoretical foundations for understanding this interaction are examined in section 2.4. These theoretical foundations are related to the following questions: What are the main theoretical assumptions about the dynamics in retailing from the perspective of the open systems? What can be assumed about the stability and change in the retail systems? How can the boundaries of the retail institutions and retail environment be defined in order to analyse the contextual factors in retail change? What can be assumed about the factors which restrict and favour change? How can the managerial behaviour be taken into account in the theories of retail change?

Approaches needed to analyse the aforementioned factors. It is assumed that in order to reach the objectives of this study and to answer the aforementioned questions a further expansion of the theoretical basis for the retail theories is needed. It is worth mentioning here that Hirschman and Stampfl (1980: 72) in their article about retail research have expressed the need for exploring alternative theories which may be applicable to retailing. The review and analysis of the theories of retail change brought out examples of how influences and theoretical assumptions outside the field of marketing have been applied to describe and explain the retail change phenomenon. The broadening of the theoretical base in this study is done by introducing three approaches to analyse the interaction between retail institutions and the retail environment. These approaches are presented and discussed in the following section.

2.4. Approaches for analysing the interaction between retail institutions and the retail environment

It is assumed in this study that there is a dynamic interaction between retail institutions and the retail environment. As shown in the review and analysis of the theories this interaction has been taken into account more or less explicitly in the theories of retail change, especially in the environmental theories and the combined theories based on the open-system view of change. In this section this interaction is focused from the viewpoint of the system approach, the political economy framework and the network approach.

The general characteristics of these approaches and their assumptions of the interaction are described. In the description the main focus is on those assumptions and theoretical elements which are important from the time-element, context and the managerial behaviour point of view and which should be taken into consideration when modelling the interaction. Therefore the aim here is to provide a theoretical basis for the formation of the general model of dynamic processes in chapter 3. and to select the most appropriate theoretical approach from the viewpoint of the dynamic interaction between retail institutions and the retail environment. Because the three approaches presented here differ from each other for instance in their level of abstraction certain choices concerning these approaches have to be made. The choices made here also affect the choices related to the time-element, context and managerial behaviour in the following chapters. Therefore it is important to examine what possibilities the different approaches give for analysing the institutional and operational level changes in retailing.

System approach

The system approach provides a means to analyse the systemic characteristics of the retail change phenomenon, especially to specify the basic building blocks or components of a system and to understand their interaction (e.g. Gattorna 1978: 495). Because the system approach has a holistic quality and it puts the emphasis on the interaction of system components (Gattorna 1978: 506), the system approach is a natural theoretical starting point for examining the interaction between the retail institutions and the retail environment, and for the formation of the general model of the study in chapter 3.

It depends on the scope, focus and level of analysis of a study whether a given unit of analysis is regarded as a system or a subsystem belonging to some broader system. For instance according to Sybrandy and Tuninga (1992: 267) a distributive system is a subsystem of a marketing system of a given context (e.g. a country). The distributive system consists of retailers and wholesalers. Retailers and wholesalers can be regarded as two separate subsystems in the distributive system. In this stage of this study we are most interested in the retail institutions and their interaction between the retail environment. Therefore a retail

institution is regarded as a component of a given retail system (the general model, section 3.1.3.). The systemic characteristics of retail change are examined on the basis of the empirical research in chapter 5. Although we limit our examination at this stage of the study to the institutional level, it must be noted that for instance a retail company can alone be regarded as a retail system or it can be regarded as one of the subsystems operating in a given retail context.

As was seen earlier in section 2.3. many theories of retail change have properties and characteristics based on the system approach. Theories like those of Etgar (1984), Markin and Duncan (1981), Roth and Klein (1993) and Evans et al. (1993) were based on the explicit acknowledgement of an open-system view of change. Alderson (1957) for instance included system level analysis of the retail change phenomenon as a part of his comprehensive theory and analysis of the organized behaviour systems (see Gattorna 1978: 493). Also various other retail studies have been based on and inspired by the system approach. Fisk (1988: 63–68) for instance used theoretical assumptions of the interactive system theories in his analysis of retail change and the development of his interactive system level model. Sybrandy and Tuninga (1992) analysed the differences in retail structures in two countries by using an analytical framework derived from the general system theory which focused on the measurement of retail activities in the retail systems.

In the field of the theories of retail change the assumptions of the general systems have been explicitly acknowledged by Evans et al. (1993). In this study the general system theory as presented by Bertalanffy (1968, 1975) can be used to illustrate the open-system nature of the retail change phenomenon. The general system theory is a holistic approach. One of its aims is the integration of various sciences, natural and social, and thus become a general science of "wholeness" (Bertalanffy 1968: 37–38). According to Bertalanffy (1968: 32) the subject matter of the discipline of general system theory is the formulation and derivation of those principles which are valid for "systems" in general. Bertalanffy (1968: 37) maintained that there appears to exist general system laws which apply to any system of a certain type, irrespective of the particular properties of the system and of the elements involved.

According to Bertalanffy (1968: 150) the basis of the open-system model is the dynamic interaction of its components. Another central characteristic of systems is their complexity. A system can be defined as a complex of interacting elements (Bertalanffy 1968: 54–55) or as a set of elements standing in interrelation among themselves and with the environment (Bertalanffy 1975: 159). According to Bertalanffy (1968: 54–55) these elements can be classified according to their number, their species and the relations of elements. Systems can be classified according to their characteristics and therefore it is possible to identify for instance open and closed systems, static and dynamic systems, rigid and adaptive systems, and stable and unstable systems (see Gattorna 1978: 494).

The open-system view of retail change means that a retail system or a retail organization takes energy and resources from the environment to perform retail functions (e.g. Zaltman, Duncan & Holbek 1973: 106). In closed systems there is no exchange of energy or resources between the system and its environment. In other words a system is “closed” if no material enters or leaves it, and “open” if there is import and export of material (Bertalanffy 1968: 121). According to Buckley (1967: 50) the typical response of open systems to environmental intrusions is elaboration or change of their structure to a higher or a more complex level (compare the theory of spiral movement by Agergård et al. 1970). This can be explained with the concept of entropy which refers to the consumption of energy in the systems (Buckley 1967: 50; Pelton, Strutton & Lumpkin 1997: 127; Bertalanffy 1968: 39). In closed systems the entropy increases and the system will eventually run down, while open systems tend to decrease in entropy or to elaborate structure (Buckley 1967: 50–51).

The above examination of the system approach leads us to several conclusions about the applicability of the system approach in this study. First, the holistic view of the retail change phenomenon, the high level of abstraction, and the system level of analysis provided by the system approach are suitable for modelling the interaction between the retail system and the retail environment in the general model in section 3.1.3. Second, the system approach forms a theoretical basis for understanding the nature of open, dynamic and adaptive systems which are the type of systems we are most interested in this stage of the study. The limitation of the system approach is however that because of the high level of abstraction,

the research questions related to the managerial behaviour at the institutional and operational level cannot be answered using the system approach. For this reason the system approach cannot be used as the sole methodological basis for this study. Above all there is a need to identify the different elements of which the retail system and the retail environment are composed. A possibility for this and for the analysis of the interaction between the retail institutions and the retail environment is the political economy framework which is examined next.

Political economy framework

The political economy framework was introduced in the field of marketing and channel research by Stern and Reve (1980) and later extended by Achrol, Reve and Stern (1983). The framework was based on the political economy approach developed earlier to help explain the direction and processes of organizational change (Zald 1970: 221). According to Zald (1970: 222) the political economy approach is a middle-range, integrative theoretical framework for comparative study of organizations. In marketing the political economy framework has been proposed as a paradigm for theory building and research concerning the exchange structures and processes within and between organizations (Arndt 1983: 44). According to Arndt (1983: 44) political economy focuses on issues like authority and control, conflict and conflict management procedures, and from the viewpoint of this study, most importantly on the external and internal determinants of institutional change.

A number of dimensions of the political economy framework can be identified: for instance polity-economy, external-internal, substructure-superstructure, and structural-process (Arndt 1980: 97, 1983: 47-48; Stern & Reve 1980: 53). In this stage of the study when approaching the interaction between retail institutions and the retail environment we are most interested in the external-internal dimension. It is important to note as Arndt (1983: 48) has pointed out, that the boundary of this dichotomy depends of the unit of analysis (about the boundaries of a social system see Håkansson & Snehota 1997b: 141).

The political economy framework includes interacting systems, internal and external political economies, which are comprised of various forces stated as structures and processes (Stern & Reve 1980: 54–55, 61–62; Arndt 1983: 48). In the framework of Stern and Reve (1980) the internal political economy refers to the internal structuring and functioning of the distribution channel. It consists of internal economy (with its structures and processes), and of internal polity (with its internal socio-political structures and processes). The external political economy refers to the channel's task environment composed of external economy (the economic environment) and of external polity (the external socio-political system).

Several studies based on the political economy framework are promising both from the viewpoint of this study and the retail institutional change in general. An application of the political economy framework to the micro-marketing case was proposed by Arndt (1980: 97–98) who explained the rise of the low-cost institutions (the budget motel phenomenon described by Hunt 1976, 1983) by focusing on the shifts in organizational objectives and shifts in power-distribution. Goldman (1991) analysed the Japanese distribution system by utilizing the political economy framework. One of his findings was that the traditional nature of Japan's distribution system is more closely related to the internal political economy than to the institutional structure (Goldman 1991: 151; related comments on the internal political economy see Arndt 1983: 52; Stern & Reve 1980: 61).

An expansion of the political economy framework was put forward by Shaw and Dawson (1996). They proposed an extended holistic framework ("a revised conceptual framework for channel research") which is built on the political economy framework by Stern and Reve (1980) and on a network analysis. In their study Shaw and Dawson (1996: 70–72) emphasized e.g. the need for a holistic approach in channel research and the importance to note the relationship between the dynamic internal and external forces which have an influence on the channels. The framework aims to provide understanding of channels in a static and a dynamic context, and understanding of the dynamics of a channel at any particular moment. The framework acknowledges the components of the channel which are the actors and participant institutions, the structure of the channel (vertical, horizontal and spatial organization), channel processes (flows and behavioural relationships), and the

external factors affecting channel structures and processes. The framework emphasizes also the extent and form of interaction amongst these four components (Shaw & Dawson 1996: 71–72).

The aforementioned studies, especially that of Shaw and Dawson (1996), illustrate the applicability of the political economy framework to conceptualize the complex dynamics of interacting systems. In this study the political economy framework is not regarded as the sole fundamental research paradigm or research approach on which this study should be based. The contribution of the political economy framework for this study is the identification of the basic components of the interacting external and internal systems. Thus it provides understanding about the various elements, structures and processes affecting retail change. The political economy framework is also promising from the methodological and empirical point of view because it is a framework for comparative analysis.

Network approach

The conceptual foundations of the network approach referred to here can be found in the research conducted by the Industrial Marketing and Purchasing Group (the so-called interaction approach), by organization theorists and by the researchers of the University of Uppsala (e.g. IMP Group 1997; Gadde & Hakansson 1994: 167; Håkansson & Snehota 1997b; Möller 1994: 362–363). Characteristics of the studies in this field are among other things a conceptual richness i.e. the existence of various concepts and conceptual frameworks, and for instance the use of qualitative case study methods for descriptive analysis. The subjects of these studies range from the analysis of dyadic business relationships in industrial markets to studies focusing on the complex relationships and networks between firms and their markets. Here we are mostly interested in studies in which the network approach has been applied to conceptualize the organization-environment interface and to analyse the dynamics of distribution channels.

According to the network model of the organization-environment interface (Håkansson & Snehota 1997b: 140) the organization is embedded in relationships with identifiable

counterparts. This network or web of relationships is characterized by the existence of interdependencies between actors, activities and resources, the three basic elements of the network model (Håkansson & Snehota 1997b: 140; Gadde & Hakansson 1994: 170). Different layers, linkages and functions related to these three elements can be identified (for a detailed analysis of the concept of relationship see e.g. Håkansson & Snehota 1997a). The view of the boundaries and the interaction between an organization and the environment proposed by the network model differs from the view which claims that there exists a clear dividing line between the organization and its environment or between the internal and external factors (Håkansson & Snehota 1997b: 136; Andersson 1992: 48–49; compare the political economy framework). According to Håkansson and Snehota (1997b: 143) the organization exists and performs in a context rather than an environment (for a discussion and definition of context as viewed in this study see section 3.4.2.).

Gadde and Hakansson (1994) regarded the distribution channels as networks of actors. In their analysis of the change and stability in the distribution channels they argued that the origin of change is related to the interface between the actor and the environment (Gadde & Hakansson 1994: 167). One of their conclusions is important from the viewpoint of this study. They maintained that a distinction should be made between those changes which have a stabilizing effect and those which lead to new network structures (Gadde & Hakansson 1994: 168, 179). Thus instead of viewing the stability as a normal condition in the distribution channels they stated that stability is a condition created by the actors (Gadde & Hakansson 1994: 167).

The possibilities to combine the network approach to marketing systems with the area of organization theory for analysing the distribution channel dynamics was discussed by Andersson (1992: 47). He argued for instance that future research on distribution channel dynamics on a systemic level should first be based on longitudinal research in specific marketing systems, and second adopt an open network approach to marketing systems (Andersson 1992: 64). Although Andersson focuses in his article mainly on the concepts of loose and tight coupling in distribution networks, some of the more specific suggestions for the directions of channel research proposed by him are also interesting and fruitful from the

viewpoint of this study. First, he suggested that more emphasis should be put on the dynamic concepts of stability and change, and on the related concepts of adaptation and adaptability (Andersson 1992: 64–64). Second, he pointed out that dynamic, longitudinal research should focus on the time perspective (for instance related to the short-term and long-term adaptation) (Andersson 1992: 65).

The network approach provides possibilities for detailed analysis of the components of the retail system. The approach takes explicitly into account the actors in the networks and their activities and thus gives insights about the retail decision-makers' behaviour especially in the network context. The third element of the network approach, the resources, are however out of the scope of this study. The studies by Shaw and Dawson (1996) and by Andersson (1992) showed that the assumptions and concepts of the network approach can be combined with other theoretical assumptions when analysing the dynamics of distribution channels. The network approach is not used as a sole theoretical basis for this study. Thus the contribution of the network approach to this study is limited. Its contribution is related to the background notions and assumptions related to the stability and change and to the definition of context. Although the network approach is suitable for detailed description and analysis of the interacting actors, activities and resources, the system approach is more suitable than the network approach for modelling the interaction between retail institutions and the retail environment in the general model of this study.

2.5. Conclusions

The purpose of this chapter was to discuss, select and establish the theoretical foundations for analysing the retail change phenomenon. In the beginning of the chapter the concept and nature of retail institutional innovations were discussed in order to understand the retail change phenomenon from the perspective of the dynamics of innovations. It was shown that retail institutional innovations are combinations of different factors and dimensions creatively planned, introduced and managed by the retail decision-makers and that the non-economic dimensions of retail innovations have become more important in modern retailing.

The major part of the second chapter concentrated on the review and analysis of the theories of retail change from the time-element, context and managerial behaviour point of view. The review showed the internal richness of the theory formation. It can be argued that from the time-element viewpoint the emphasis should be shifted from the analysis of long-term changes towards the analysis of rapid short-term changes caused by retail decision-makers. In addition to these two time-spans, it is important to note the timing of various activities, especially related to the introduction of the institutional and operational innovations, carried out by retail decision-makers.

The review and analysis showed that from the context point of view the focus should be put on those contextual factors which account for the differences and similarities in retail change and in the managerial behaviour. It is equally important to take into consideration those contextual and managerial behaviour related factors which restrict and favour retail change. The focus of this study from the managerial behaviour viewpoint should be put on the various activities carried out by retail decision-makers concerning how a retail institution is adapted to a given context.

Amongst the four theoretical approaches the combined approach was selected as a basis for this study. Several reasons for this selection can be given. First, the combined approach explicitly acknowledges the combination of theoretical elements and partial theories. Thus this study follows what has been the dominant mode of theory development in the field of theories of retail change. Second, the combined approach includes theories which explicitly acknowledge the interaction between retail institutions and the retail environment, and the open-system nature of this interaction. As shown the direction of the theory development has been from the deterministic closed-system theories towards comprehensive open-system theories.

The system approach, political economy framework and network approach were presented as alternative approaches for analysing the interaction between retail institutions and the retail environment. There are however examples of studies in which dynamic frameworks have been formed by integrating assumptions and concepts from several approaches. The

system approach was selected as a primary approach to model this interaction in the general model of this study. The assumptions related to the internal-external dimension of the political economy framework and to the context and dynamics of the network approach are also taken into account in this study.

3. MODELLING THE DYNAMIC INTERACTION IN RETAILING

The chapter starts with the analysis of general dynamics in retailing and evolves towards a more specified analysis of the interaction, change and adaptation at the institutional and operational levels. Section 3.1. focuses on the general dynamics in retailing. First the general assumptions related to stability and change in retailing are discussed. After discussing predictability of change a concluding view of the dynamic interaction between the retail system and the retail environment is presented in the form of a general model. Section 3.2. examines the possibilities for analysing past, present and future changes in retailing with using cross-sectional and longitudinal approaches. In section 3.3. the different criteria guiding the theory formation and the modelling of the retail change phenomenon are presented. Section 3.4. focuses on analysing the reciprocal interaction between retail format, managerial behaviour and context. First the theoretical background for the reciprocal interaction approach is presented and the basic choices concerning this approach are discussed. Then the elements, relations and the levels of abstraction of the reciprocal interaction model are analysed and the assumptions of the institutional dynamics and adaptation and the operational dynamics and adaptation are presented. The chapter ends with conclusions in section 3.5.

3.1. General dynamics in retailing

Although most of the theories reviewed and analysed in section 2.3. focus on describing the evolutionary changes related to the change of retail institutions over time, the assumptions and views of the nature of the change proposed by the theories is not unified but rather heterogeneous. It was shown that the overall direction of the theory development in this field has been from the deterministic closed-system theories and descriptions of the historical repetitive patterns towards open-system theories which take into account the interaction between retail institutions and the retail environment and which explicitly acknowledge the role of retail decision-makers in the retail change. The planned changes caused by retail decision-makers cannot be explained sufficiently with the evolutionary view of change.

In order to being able to understand and to model the general dynamics in retailing the concept of change and the different types of change must be first acknowledged. Several classifications of change exist. Fisk (1988: 57–61) identifies and analyses four basic concepts of change which are revolutionary change, evolutionary change, random change and deterministic change. According to Fisk (1988: 57–58) revolutionary change refers to sudden and discontinuous change while evolutionary change refers to change consisting of mutations produced by populations interacting over time and space. Random change refers to change in which the necessary antecedents of change are unidentified whereas deterministic change refers to change in which the necessary antecedents of change are related “lawfully” to their consequences (Fisk 1988: 57–58).

Another classification of change focusing on the historical processes in social systems is presented by Boulding (1970: 1–14) who identifies four types of processes: random process, determined mechanical dynamic process, teleological process and evolutionary process. Random process refers to a process where the essence is unpredictability. Determined mechanical dynamic process is characterized by the property that the record of a limited number of events in the process enables the prediction of the next event, and all subsequent events, with complete accuracy. Teleological process refers to e.g. the biological process of growth which is guided by an information content of the genes, or a process which is guided by a blueprint, a goal or a desired end-state of the process. Evolutionary process refers to a selective ecological process (i.e. a process which involves a process of selecting one out of a number of possible changes). (Boulding 1970: 1–14; Garud & Van de Ven 2002: 208.)

Boulding (1970: 14–15) argues that cutting across the aforementioned classification a new classification with three types of processes can be identified: equilibrium process, cyclical process and cumulative process. Cyclical process refers to a process in which a certain pattern is repeated over and over again. Equilibrium process refers to a process in which the disturbance from the equilibrium position results in a dynamic process to bring the system back to equilibrium. Cumulative process refers to a process which never returns in any regular way to a previous position but which has certain consistency in its pattern of change. (Boulding 1970: 14–18.)

Both implicit and explicit assumptions of the different types of change can be found among the theories of retail change (section 2.3.). However in order to understand the evolutionary and revolutionary aspects of retail change and the predictability of change the concept of change must be examined further. As stated in section 2.4. the network approach and system approach have a number of promising notions regarding stability and dynamics of systems. Next these notions are examined from the network and systems perspectives.

3.1.1. Stability and change

Important notions from the viewpoint of retail change and managerial behaviour can be found in studies based on the network approach. In their analysis of the change and stability in the distribution channels Gadde and Hakansson (1994: 167) argued that stability in the distribution channels is "a rather surprising condition", a state created by actors. They pointed out that this view is different from the typical assumption of distribution channels (e.g. proposed by Nieschlag, ref. Fullerton (1986: 273), or by McCammon 1963) which regards the stability in the distribution channels as a normal condition and asserts that the distribution channels are typically conservative and resistant to change (Gadde & Hakansson 1994: 167).

Gadde and Hakansson (1994: 167) maintain that by understanding the mechanisms supporting stability it is possible to understand the mechanisms which create change in business networks. It is also important to note that according to Håkansson and Snehota (1995: 273) much of the change in business networks aims at achieving a certain degree of stability in the network structure (see also Gadde & Hakansson 1994: 179). A similar kind of view is presented by Andersson (1992) who, focusing on the distribution networks, argues that networks are stable but not static and points out that there is need for a system level analysis of the dynamics of the distribution systems (e.g. Andersson 1992: 52–55; section 2.4.).

According to Buckley (1967: 31) social systems are characterized primarily by their propensity to change their structure during their culturally continuous "lifetime". Buckley

(1967: 40) discusses how different models of social systems differ in their level of organization (i.e. the systems' structural arrangements) and in their dynamics (i.e. the degree of change in the system). He identifies three types of system models which are equilibrium model, homeostatic model and process model (or complex adaptive system model) (Buckley 1967: 40). The equilibrium model presents a system's movement towards an equilibrium and a low level of organization while the homeostatic model asserts that a system has a tendency to maintain a relative high level of organization against the tendencies to reduce it (Buckley 1967: 40). The process model also known as the complex adaptive system model states that a system's evolution is characterized by the elaboration of the system by moving towards a higher level of organization (compare section 2.4.).

System equilibrium is a central concept from the viewpoint of stability and change in social systems. According to Tonkiss (1998: 48) an equilibrium is the state of affairs in which all parts of a system are perfectly balanced and which thus ensures the perfect functioning of that system. The three different types of equilibrium in a system are stable equilibrium, dynamic equilibrium and disequilibrium (Rogers 1995: 424–425). According to Rogers (1995: 424) in stable equilibrium there is almost no change in the structure or functioning of a social system. In dynamic equilibrium the change occurs at a rate that allows a social system to adapt while in disequilibrium the rate of change is too rapid for a social system to adapt to the changes (Rogers 1995: 424–425).

Fisk (1988: 61) argues that from the perspective of space-time the equilibrium is a cross-section snapshot frozen in time and space. Static views of this kind cannot be used to describe the way how retail systems act when evolutionary and revolutionary changes occur. It can be argued that retail systems seek the state of dynamic equilibrium in those seemingly stable periods during which a retail system incrementally adapts to the changes in the environment. There are however in addition to the evolutionary periods short revolutionary periods during which the change of retail system is rapid and discontinuous (e.g. Davies 1998: 173).

The punctuated equilibrium paradigm conceptualizes both the evolutionary and revolutionary aspects related to the stability and change in systems. The theory of punctuated equilibrium was proposed by natural historians Eldredge and Gould in 1972 (e.g. Gould 1987: 3; Gersick 1991: 11) and discussed in the context of the theories of retail change by Davies (1998: 173) (see also Fisk 1988: 56–58). Davies (1998: 173) argues that short periods of severe environmental change may produce much more change in retail forms and practices than would occur over much longer periods of slow environmental change.

The central notion in viewing change as a punctuated equilibrium is the alternation between long periods with only incremental adaptations, and brief periods of revolutionary change (Gersick 1991: 10). Gersick (1991) argues that this kind of view of change can be found in many fields of research and theory concerning e.g. biological species, organizations, individuals and groups. Gersick (1991: 11) points out that for instance the views presented by Abernathy and Utterback concerning radical and evolutionary innovations include similar views of change. According to Gersick (1991: 13) the common idea in all punctuated equilibrium models is that systems evolve through the alternation of the periods of equilibrium, in which persistent underlying structures permit only incremental change, and periods of revolution, in which these underlying structures are fundamentally altered. The three main components of the punctuated equilibrium paradigm are the highly durable underlying structure or deep structure, equilibrium periods and revolutionary periods (Gersick 1991: 12–22). The deep structure refers to the set of choices a system has made in relation to its organization and its functioning like resource exchange with the environment (Gersick 1991: 14–16). According to Gersick (1991: 32) the construct of a deep structure offers a new way to understand the system's resistance to change.

Gersick (1991: 10) points out that the view of change proposed by the punctuated equilibrium paradigm differs from the Darwinian view of change emphasizing gradualism (see also Hannan & Freeman 1989: 37–38). The main difference between the punctuated equilibrium paradigm and the traditional views of change is that the punctuated equilibrium paradigm does not acknowledge the incremental, cumulative view of change. According to

Gersick (1991: 12, 14) the punctuated equilibrium models differ from the traditional views in three ways. First, these models maintain that systems do not evolve through gradual blending from one state to the next. Second, they maintain that the systems' histories are unique. Third, they maintain that systems do not necessarily evolve from lower to higher states, through universal hierarchies of stages, or toward pre-set ends. The punctuated equilibrium paradigm has also its limitations which should be kept in mind when applying the paradigm. Gersick (1991: 33) notes that the punctuated equilibrium should not be regarded as the only way systems change. According to Gersick (1991: 33) in organizations punctuational patterns may be most evident in systems that have confining deep structures but least evident in highly flexible systems, or for instance in loosely coupled systems with their low internal interdependence.

Gersick (1991: 33) points out that the punctuated equilibrium models should not be applied without criticism. Gersick finds the punctuated equilibrium useful in interpreting a model or a set of research findings as it guides a researcher to ask questions like:

Do these data reflect a system in equilibrium or in transition? Do they depend on characteristics inherent in the system's parts, or in the deep structure that organizes them? How far can these conclusions be expected to hold, should the system undergo radical change? (Gersick 1991: 33-34.)

On the basis of the review and discussion of the different concepts and models related to the system equilibrium and to the stability and change it can be argued that both the evolutionary and revolutionary types of change should be acknowledged in modelling the change of retail systems. The punctuated equilibrium paradigm captures both these aspects of change. It assumes also that there is a connection between the deep structure of a system and the systems' resistance to change. It is assumed in this study that the speed and the direction of the change of retail systems is affected by both managerial behaviour and context (or retail environmental) related factors. There are variations in these factors at different times and across different retail systems. Because of this variation it would be too simplistic to claim that retail (and distribution) systems are in general stable and conservative or dynamic and flexible. They can be both at different points of time. As stated by the punctuated equilibrium

paradigm retail systems have both stable periods when there are only incremental changes and adaptations in the system and more dynamic periods when there are more fundamental changes in the retail system.

3.1.2. Predictability of change

In marketing as in economics and social sciences the prediction of future events or changes is one of the fundamental issues related to scientific models and theories because prediction is closely related to explanation, testing and scientific understanding (see e.g. Hunt 1976: 45–49, Hunt 1983: 115–120). According to Hunt (1976: 46) every adequate explanation is potentially a prediction. Popper (1984: 3, iv–vii) argues that a prediction can be compatible with testing social theories (e.g. economic theories) but he rejects the idea of historical destiny, the historical prediction intended to discover rhythms, patterns, laws or trends that underlie the evolution of history and the growth of human knowledge (see Hunt 1976: 46).

In connection to societies or retail systems the Darwinian, evolutionary view of change assumes that the adaptation to change occurs in a uniform way (Tonkiss 1998: 48). The idea of evolutionary processes is very apparent in convergence theories and modernization theories concerning social and economic change. An example of these theories is the theory of stages of economic growth proposed by Rostow, which tries to explain and predict the development of societies from one stage to another (see Rostow 1962; Crow 1997: 24–25, 118–119; Kumcu 1987: 123; Mäkinen 1982: 63). These kinds of stage theories have been criticized for providing too simplistic accounts of the development of complex systems because they do not acknowledge the other possible alternative routes for development (e.g. Crow 1997: 118–124; Kumcu 1987: 123).

In the theories of retail change the evolutionary view of change and progress can be found especially among the most comprehensive theories at a high level of abstraction. In marketing and retailing the prediction and forecasting is however more often related to decision-making and managerial behaviour at the operational and institutional levels. Arndt (1972: 45) for instance identified temporal lags in retailing in countries with similar socio-

political aspects and presented a conceptual framework suitable to be used in forecasting the optimal timing to establish retail operations in a new country.

A theory's ability to deal with uncertainty and to explain and predict future changes is related to the deterministic or stochastic nature of a theory (for the stochastic-deterministic controversy see Nakamoto & Hunt 1980). In the theories of retail change a distinction has been made between deterministic theories and stochastic theories emphasizing e.g. open-system view change (e.g. Roth & Klein 1993: 168). The cyclical theories like the wheel of retailing theory have been criticized for being deterministic accounts of retail change (e.g. Hirschman & Stampfl 1980: 72; Markin & Duncan 1981: 61; Roth & Klein 1993: 170). It has been claimed that models like the wheel of retailing and the retail life cycle follow deterministic logic and attempt to predict future events by taking the cultural or historic setting as given or static (Kumcu 1987: 121). In cyclical theories the prediction is based on the assumption of the occurrence of a cyclical, repetitive patterns of change.

The cyclical view characteristic for instance to the wheel of retailing theory can be illustrated by using the metaphor "time's cycle" (Fisk 1988: 56; Gould 1987: 10-16) taken from the dichotomy of "time's arrow and time's cycle" referring to the linear and circular view related to the nature of history and the concept of time (Gould 1987: 1-19; Fisk 1988: 56-61). The time's arrow refers to history seen as an irreversible sequence of unrepeatable events which are moving in one direction (Gould 1987: 10-11). According to Fisk (1988: 56-61) the historical explanations permit analysis to move linearly with time by using prior activities to predict and explain events which are believed to have followed. The time's cycle metaphor claims that time has no direction and that the events have no causal impact on the history since their motions are parts of repeating cycles (Gould 1987: 11; Fisk 1988: 56-57). The time's cycle view is, as Fisk (1988: 56-57) points out, embedded in many marketing metaphors (e.g. the fashion cycle, the wheel of retailing, and the product life cycle).

In spite of (and exactly because of) their inherent determinism the cyclical theories cannot explain or predict the rapid changes occurring in modern retailing. This issue has been acknowledged in the retail literature by several authors. In their analysis of the management

of retail life cycles Davidson and Smallwood (1980: 53–54) maintained that past experience has lost much of its value as a source of reliance for future oriented decisions of a strategic nature. Davies (1998: 175) argues that it is not possible to predict, at the micro level, the specific mechanism for change for any particular situation or any particular time. Davies (1998: 176) however refers to the two types of strategies (the r-strategies and K-strategies introduced by Hannan and Freeman (1989)) available for different retail environments. It seems that the possibilities to predict changes are related to the speed of change so that in a static retail environment the change is more predictable than in a dynamic environment (see Hannan & Freeman 1989: 118–119; Davies 1998: 175–177). Davies (1998: 177) claims that the wheel of retailing type of cyclical change is most likely to occur in conditions when the environmental change is slow and the design space is relatively stable.

It must be noted here that the existing retail structure and the past and present behaviour of retail decision-makers not only have an effect on future changes but they also restrict and limit the number of decisions available. This view which provides a basis for anticipating changes can be found in the network literature. Håkansson and Snehota (1995: 281) argue that in business networks the changes flow from the actual existing structure of the network, which is a product of processes that in the past have led to the formation of the structure of the network. They maintain that the anticipation of change is possible because the change in business networks is a continuous process, in which some sequences of events are ruled out (Håkansson & Snehota 1995: 28).

An understanding of the nature of change in the retail system, the dynamic interaction between retail format, managerial behaviour and context, and the active management and strategic planning by retail decision-makers can guide us to identify the factors which produce retail change. Swinyard (1997: 245) points out that the direction of change is most often dictated by customer demand and the competitive monitoring and response to it. Retailers screen the retail environment in order to identify the events in the marketplace which might produce change (see also Evans et al. 1993). Also instead of reacting to change only after it has occurred, retailers try to recognize the changing trends and develop strategies which proactively shape the environment (Dunne & Kahn 1997: 275). Because of

the open-system interaction between the retail system and the retail environment both reactive and proactive managerial behaviour is needed when retailers adapt to the changes in the retail environment (sections 3.4.3. and 3.4.4.).

3.1.3. Dynamic interaction between the retail system and the retail environment

It has been argued that there is a need for evolutionary theories of interaction between organizations and the environment (Fisk 1988: 61) and that a more holistic view is needed to analyse distribution systems (Shaw & Dawson 1996). Before going into more specified discussion of the dynamic reciprocal interaction between retail format, managerial behaviour and context, the dynamic interaction in retailing is first examined at the system level. In this study an open-system view of the interaction between the retail system and the retail environment is acknowledged. This view is presented in the form of a general model (Figure 3) focusing on describing the interaction between the retail system and the retail environment over time.

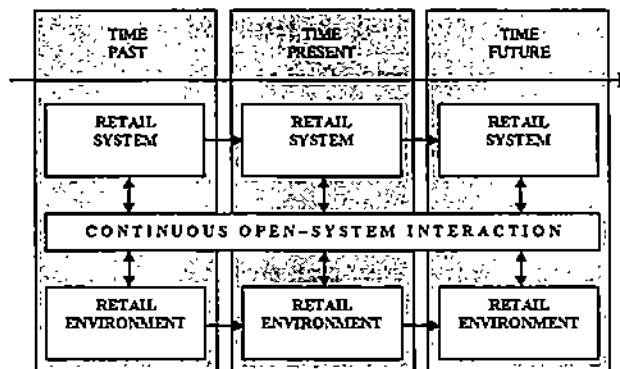


Figure 3. General model of the dynamic interaction between the retail system and the retail environment.

The central assumption of the model is that there is a continuous open-system interaction between the retail system and the retail environment which produces retail change. The open-system view adopted in the model is mainly based on and influenced by the assumptions presented by Roth and Klein (1993) and Evans et al. (1993) (for dynamic

interaction between retail institutions and the retail environment see e.g. Markin & Duncan 1981: 61). The model focuses on the internal (retail system) - external (retail environment) dimension of the interaction proposed by the political economy framework by Stern and Reve (1980) or by the theory of spiral movement by Agergård et al. (1970: 55). These two systems consist of numerous subsystems and factors at different levels of analysis (e.g. institutional and operational levels) which simultaneously affect retail change. However only system level factors are acknowledged explicitly in the general model. Therefore several factors at lower levels of analysis are taken into account only implicitly in the model.

The main components of the model are the retail system and the retail environment. They evolve through continuous open-system interaction with each other. In other words retail systems are formed and transformed through interaction with their environment (Kumcu 1987: 122). Although the retail system and the retail environment are depicted in the model as two separate domains they are however closely related and intertwined with each other. The definition of the boundaries of these two systems depends on the level and unit of analysis. The assumption of the difference between these two systems is based on the view presented by Roth and Klein (1993: 174): the retail environment consists of factors over which a retail decision-maker has no direct influence.

In the model time is depicted in the form of a continuum or a time's arrow (e.g. Gould 1987). The continuously interacting retail system and the retail environment are depicted in the model at three different points of time: past, present and future. Both the retail system and the retail environment are open and adaptive systems. In the model the retail system and the retail environment refer to a retail system and a retail environment of a given country or a cultural setting relevant for the analysis. Although not depicted in Figure 3 the retail system and the retail environment also have interaction with other respective systems. Thus they both affect and are affected by the changes in the other systems.

The retail system refers to the internal, retail system related determinants of change. In the political economy framework this internal dimension (the internal political economy) refers to the internal economy (with its structures and processes), and to the internal polity (with

its internal socio-political structures and processes) (Stern & Reve 1980). The retail system consists of retail institutions (i.e. retail formats) which are regarded as open subsystems (see Roth & Klein 1993: 174). The assumption regarding the formation of the present retail system is influenced by and based on the view presented by e.g. Roth and Klein (1993: 174; see also e.g. Davies 1998: 170) and Markin and Duncan (1981: 61; see also Kumcu 1987: 122). It is assumed in the model that the present retail system is the combined result of the past developments in retailing (caused by retail decision-makers) and in the retail environment (caused by retail environmental and contextual factors). The long-term development, past retail trends and processes which have led to the formation of the present retail system are manifestations of the retail system's adaptation to the changes in the retail environment. Retail decision-makers' present actions made as a response to changes in the retail environment affect the formation of the future retail system.

The retail environment refers to the external, retail environment related determinants of retail change. In the political economy framework this external dimension (the external political economy) refers to the channel's task environment consisting of the external economy (the economic environment) and external polity (the external socio-political system). The retail environment consists of economic, technological, legal, social, political, demographic and consumer related factors (Sampson & Tigert 1994: 54–56; Roth & Klein 1993: 174–175; Bucklin 1999: 84). As there is a continuous interaction between the retail system and the retail environment the changes in the retail environmental factors have an effect on the retail system. The present retail environment is a result of historical processes and changes in the various interrelated retail environmental factors over time. It is also important to note that changes which have occurred in the past also have carryover effects over time (see Kumcu 1987: 123–128).

Because there are differences in the retail environmental (or contextual or cultural) factors and the processes through which these factors have evolved, there is also variation in the characteristics between different retail systems. Each retail system has its own unique history. There cannot be universal laws or theories with broad scope which could encompass all the variation in the retail processes, explain the formation of retail systems with different

internal structures and processes, or predict changes occurring in the future on the basis of past developments. It is assumed here that in order to capture the context dependent nature of the retail change phenomenon and the dynamic interaction which produces it, a more specified model of the dynamic interaction is needed. This means that the analysis and modelling of the interaction must be shifted from the system level to institutional and operational levels.

3.2. Cross-sectional and longitudinal approaches for analysing retail change

The general model provides a starting point for discussing the possibilities to use cross-sectional and longitudinal approaches for analysing retail change produced by the dynamic interaction between retail format, managerial behaviour and context. The interaction between these three factors occurs simultaneously at the institutional and operational levels producing changes which have an effect on both levels. The retail institutional changes are typically slower than the operational changes because in addition to the periods with rapid and discontinuous change there are typically also long stable periods which are characterized by a retail institution's incremental adaptation to the changes in the environment (section 3.1.1.). The longitudinal approach is needed in the analysis and description of past developments and historical processes in retailing. The cross-sectional approach is applicable in the analysis of for instance the state or characteristics of a retail system and the retail environment at a particular point in time.

Figure 4 illustrates the application of cross-sectional and longitudinal approaches in the analysis of changes in the retail format, managerial behaviour and context. Like in the general model presented earlier the continuum of time is depicted with three different points of time: past, present and future. However the main interest here from the viewpoint of the dynamic interaction is to use the cross-sectional and longitudinal approaches in the analysis of changes in the three interacting elements between two points of time, namely past and present. Although the prediction and forecasting are depicted in the figure the issues related to the analysis of the future states or characteristics of the elements is out of the scope of this study.

On the basis of a single, static cross-sectional "snapshot" or a description of the state of the retail format, managerial behaviour and context at a given point in time, cannot reveal the changes in these factors. A cross-sectional analysis can however lead us to take into consideration antecedent factors behind the subsequent events and changes. The cross-sectional approach is especially applicable when the aim of the analysis is for instance the understanding of the present actions of retail decision-makers or describing the structure of a retail system.

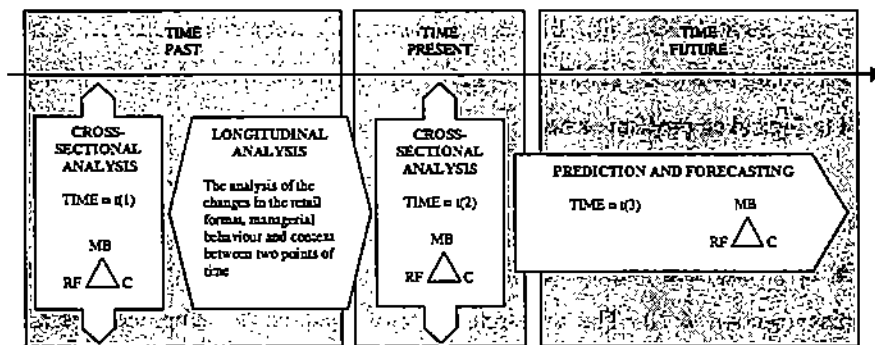


Figure 4. Application of the cross-sectional and longitudinal approaches in the analysis of the past, present and future changes in the retail format (RF), managerial behaviour (MB) and context (C).

The longitudinal approach refers to the analysis of changes in the retail format, managerial behaviour and context between two or several points in time. The main focus in the analysis is on the past changes and processes. A basic application of longitudinal analysis would be to conduct two cross-sectional studies or cases and then on the basis of these studies to examine the changes which have taken place during the period of examination (Figure 4). The longitudinal approach is especially applicable to the analysis of institutional dynamics or the typically slow long-term changes at the institutional level. Most of the retail theories which describe the evolution of retail institutions rely on case histories and examinations of past retail trends and thus are to some extent supported by historical evidence.

More advanced forms of analysis for understanding the long-term changes in retailing have been achieved by explicitly applying a historical perspective or historic approach (e.g. Savitt

1980: 53, 1984a, 1988) and a historical method (e.g. Kumcu 1987; Fullerton 1987: 111–112; Alexander 1997; see also Jones & Monieson 1990: 270) in the studies on retail change. It is important to note that the dominant perspective of a theory based on the historical method is context-bound or culturally relevant as historical research requires that phenomena are studied in their culturally relevant context (Kumcu 1987: 121–122). Historical longitudinal research, especially the historical method brought forward by Kumcu (1987: 121), is primarily descriptive or explanatory and based on probabilistic, not deterministic, assumptions of variable relations, and on relative, not universal or absolute, laws (see also Savitt 1980: 53). Because of these and other characteristics, a historical method, according to Kumcu (1987: 120–125), represents a completely different worldview compared to logical empiricism or neo-classical theory.

In this study the retail change, produced by the interaction between the retail format, managerial behaviour and context, is examined empirically by conducting two descriptive case studies (section 4.2.). The research strategy used in the empirical research, the implementation of a case design with two embedded cases, and by analysing the changes in the elements at two levels of analysis, differs from pure cross-sectional studies (focusing on the state of the phenomenon at a given point in time) and from pure longitudinal studies (in which qualitative data, e.g. retail statistics, are collected at two or several points in time) (e.g. Sekaran 1992: 109–111). Methods used in purely cross-sectional or longitudinal studies cannot be used in the empirical research of this study. Neither are purely historical methods (e.g. Kumcu 1987) suitable for the empirical examination of the research problem. The research approach taken in this study calls for the use of qualitative research methods which can be used in retrospective data collection (e.g. Pettigrew 1985: 87–88; the longitudinal research design) needed for describing the long-term evolution of a retail format in a given context. These and other methodological issues related to formation of the empirical research setting are discussed in section 4.1.

3.3. Criteria for the formation and evaluation of theories

Bartels (1981: 1) has argued that much reasoning concerning retailing has been practical and descriptive by its nature. This is the case also in the theories of retail change. The review and analysis of theories in the second chapter showed that many of the concepts, hypothesis and theories formed to describe or explain the various aspects of the retail change phenomenon do not fulfil the different criteria set for a scientific theory. This argument leads us to raise following questions: What is then a theory and what kind of criteria should it fulfil? These fundamental questions related to the philosophy of science have been much debated in the literature focusing on theoretical issues both in marketing and in other disciplines (e.g. Hunt 1976, 1983; Nakamoto & Hunt 1980; Zaltman, Pinson & Angelmar 1973; Brinberg & McGrath 1985; Eisenhardt 1989; Boudon 1986). A theory has been defined for instance in the following ways:

A theory is a systematically related set of statements, including some lawlike generalizations, that is empirically testable. The purpose of a theory is to increase scientific understanding through a systematized structure capable of both explaining and predicting phenomena. (Rudner 1966, ref. Hunt 1983: 228; see also Hunt 1976: 3; Nakamoto & Hunt 1980: 245.)

A theory is a set of propositions (sentences) with the following characteristics: (1) There is more than one proposition (sentence), (2) the set contains nonobservational propositions (sentences), (3) the propositions (sentences) are deductively connected, and (4) the nonobservational propositions (sentences) must be testable in principle. (Zaltman, Pinson & Angelmar 1973: 201.)

A number of criteria for "a good theory" can be found in the literature (Zaltman, Pinson & Angelmar 1973: 92). It has been argued for instance that "a good theory" is parsimonious, testable and logically coherent (Eisenhardt 1989: 548). These kinds of general criteria are applicable to theory building in general irrespective of the research methodology or the research paradigm applied in the theory building. It must be noted however that when assessing how well a given theory fulfils the general or any other more specific criteria it depends on for instance the type of theory and the particular purpose and objectives for which a theory is formed (e.g. Zaltman, Pinson & Angelmar 1973: 93). It has been shown for instance that the wheel of retailing theory, like most other theories of retail change, does

not fulfil the criterion concerning empirical testability. In spite of this shortcoming the wheel of retailing theory has been treated as an explicit theory when included in combined theories. The goodness or the value of the wheel of retailing theory is related for instance to its usefulness as an illustrative metaphor of the nature of retail change.

In their "Validity Network Schema" focusing on the different aspects of validity in relation to the different stages of the research process and to the different domains Brinberg and McGrath (1985: 46–48) proposed three criteria or standards concerning the value or the acceptability for relations and elements within substantive, methodological and conceptual domains. The three criteria or standards for the conceptual domain, the domain we are most interested in here in this stage of study, are parsimony, differentiation and scope (Brinberg & McGrath 1985: 46–47, 57). These criteria can be regarded as basic criteria for "a good theory". The first criterion, the principle of parsimony refers to the complexity and number of concepts in a theory. The second criterion, scope refers to the range of phenomena for which a theory can account for. The third criterion, differentiation refers to the extent to which a theory describes the phenomena under study in detail. Each of these criteria are described in Table 5.

Table 5. Criteria for the conceptual domain. Source: Brinberg & McGrath 1985: 46–47, 57.

CRITERION	DESCRIPTION
Parsimony	Other things being equal, interpretations that use fewer concepts and fewer, and less complex, relations to interpret a given body of evidence are better than interpretations that use more, or more complex concepts and relations.
Scope	Other things being equal, it is better for a conceptual formulation to cover a broader, rather than a narrower, focal problem.
Differentiation	Other things being equal, it is better for a conceptual system to differentiate features of the focal problem in detail, rather than to treat them in more general or abstract form.

From the theory building viewpoint it is important to acknowledge the interconnectedness of these three criteria. Brinberg and McGrath (1985: 47) have pointed out that although the three criteria are all desirable they are however mutually conflicting which means that it is not possible to maximize all these criteria at the same time in the same theory. There are however three alternative approaches or research strategies which can be followed in order to optimize on two of the three desiderata but minimize the third (Figure 5) (Brinberg &

McGrath 1985: 46–48). The first possible approach is to seek a high level of subsumptive power. This can be achieved by using in a theory only very abstract terms which keep broad scope and high parsimony (Brinberg & McGrath 1985: 48). The second approach is to seek high specificity by using few but richly detailed concepts to get high differentiation and to keep high parsimony (Brinberg & McGrath 1985: 48). The third alternative is to seek high comprehensiveness. This can be achieved by keeping both detailed differentiation of the concepts and broad scope (Brinberg & McGrath 1985: 48).

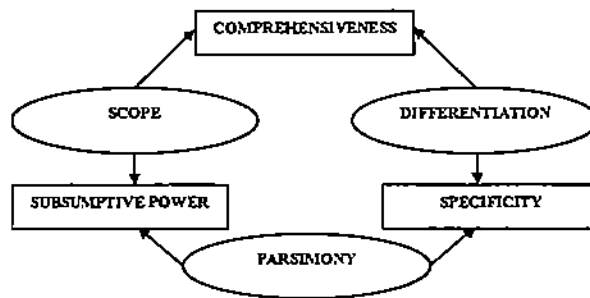


Figure 5. Conceptual criteria as conflicting desiderata. Source: Brinberg & McGrath 1985: 48.

Another set of basic criteria for “a good theory” was proposed by Sheth et al. (1988). They used syntax, semantics and pragmatics criteria in their evaluation of the major schools of thought in marketing (Sheth et al. 1988: 29–33; see also Zaltman, Pinson & Angelmar 1973: 93–103; Laaksonen & Huuhka 1999: 31–40). Each of these metatheoretical criteria consists of two subcriteria (Table 6). The syntax criteria focus on a theory’s organization by evaluating how theoretical concepts are defined and how the relationships among these concepts are specified. The semantics criteria focus on examining a theory’s relation to reality by evaluating how well a theory can be subjected to empirical verification and how much the empirical evidence supports the theory’s hypothesis. The pragmatics criteria are related to a theory’s relevance to its potential users. The first subcriterion, richness evaluates how comprehensive and generalizable a theory is by examining for instance a theory’s possibilities to cover different contexts. The second subcriterion, simplicity evaluates how easy it is to explain and to implement a theory. (Sheth et al. 1988: 29–33.)

Table 6. Criteria for evaluating theories. Source: Sheth et al. 1988: 30–33.

CRITERION	SUBCRITERION	DESCRIPTION
Syntax	Structure	Criterion evaluates whether theoretical concepts are properly defined and integrated to form a strong nomological network.
	Specification	Criterion evaluates whether the relationships among theoretical concepts are specified in a manner to clearly delimit the hypothesis.
Semantics	Testability	Criterion evaluates whether precise and direct operational definitions of the theory's concepts are provided to ensure testability and intersubjective consensus.
	Empirical support	Criterion evaluates the degree of confirming evidence which has been gathered to support the theory's hypothesis.
Pragmatics	Richness	Criterion examines how comprehensive and generalizable the theory is.
	Simplicity	Criterion evaluates the communication and implementation potential of the theory, i.e. can a theory be easily explained to others and can the theory's recommendations be readily implemented by others.

In the theories of retail change the syntax and pragmatics criteria are in general better fulfilled than the semantics criteria (especially the testability subcriterion). The overall direction of theory development in the theories of retail change has been from uncomplicated theories toward more comprehensive theories (e.g. Laaksonen & Huuhka 1999: 23–25). This has meant for instance that the explicit combining of uncomplicated partial theories has resulted in theories (especially those in the first subgroup of combined theories) which are comparatively strong when analysed from the syntax point of view. It must be noted here however that the maximization of scope or comprehensiveness will decrease a theory's potential to fulfil the simplicity criterion (Sheth et al. 1988: 33). This concerns especially the comprehensive theories of the second subgroup of combined theories. Most of the uncomplicated theories for instance meet well the simplicity criterion but because of their limited scope, they remain weak in relation to the richness criterion.

3.4. Reciprocal interaction between retail format, managerial behaviour and context

The assumptions of the dynamic interaction between retail format, managerial behaviour and context as presented in section 1.2. are regarded here as a point of departure for the discussion of the reciprocal nature of interaction and for the modelling of retail change. The main assumption guiding the conceptual analysis and elaboration of the elements and relations in this study is that the institutional and operational dynamics in retailing are produced by the changes and adaptations in the relations between the three elements both at

the institutional and operational levels over time. This basic assumption concerning the dynamic reciprocal interaction between the three elements is depicted in Figure 6.

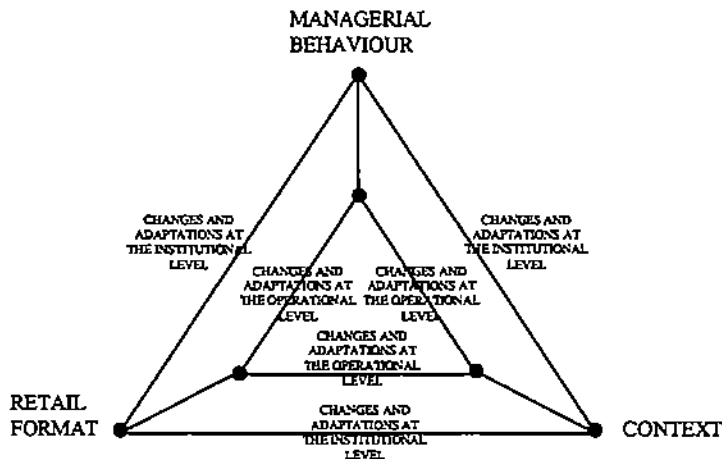


Figure 6. Dynamic reciprocal interaction between retail format, managerial behaviour and context both at the institutional and operational level produces retail change.

The analysis and discussion of the application of the reciprocal interaction approach proceeds in this study in the following way. First in section 3.4.1. the theoretical background for the reciprocal interaction approach is presented and the premises together with the basic choices made in this study concerning the application of this approach are discussed. Then in section 3.4.2. the elements, relations between the elements and the two main levels of abstraction used in conceptualizing the dynamic interaction and retail change are described and discussed. The particular questions related to the change and adaptation are first discussed from the viewpoint of institutional dynamics and adaptation in section 3.4.3. and then from the viewpoint of operational dynamics and adaptation in section 3.4.4.

3.4.1. Theoretical background for the reciprocal interaction approach

The theoretical background for the reciprocal interaction approach to be developed, discussed and applied in this study originates from the studies conducted in the field of consumer behaviour. The view of reciprocal interaction adopted here is in particular based

on and influenced by the triadic reciprocal interaction model of consumer behaviour developed by Rajaniemi and Laaksonen (1989), (see also Laaksonen 1987: 55–57; Rajaniemi 1992: 218–220; Hakio 1994: 37; Lautamäki 2000: 122; Huuhka 2001; Kantanen 2002: 48–51). The model was developed for providing a holistic view for analysing consumer behaviour from the perspective of reciprocal interaction. The model was originally applied for analysing consumer behaviour in the field of furnishing (see Rajaniemi & Laaksonen 1989). The study by Lautamäki (2000) demonstrates how the model is applicable for research problems which require analysis of the relations between multiple elements at different levels of abstraction. Lautamäki (2000: 41–49, 122) used the model for organizing and conceptualizing the different product meanings at three levels of abstraction perceived by designers, manufacturers and retailers. Another application of the reciprocal interaction model in the field of consumer behaviour was presented by Kantanen (2002: 48–51) who also discussed the model's theoretical underpinnings and linkages to the earlier views put forward by J. W. Berry, and by A. Bandura.

The model proposed by Rajaniemi and Laaksonen (1989) conceptualizes the interrelatedness of three elements: behaviour element, personal element and environmental element at three levels of abstraction. The main features of the model are as follows. The interaction system consists of three interaction subsystems which are depicted with three triangles placed within each other. The three subsystems are the performance system (the innermost triangle; the lowest level of abstraction), the usage system (the middle triangle) and the possession system (the uttermost triangle; the highest level of abstraction). The model acknowledges the three types of connections between the elements: the connections between different elements at the same level of abstraction, the connections between different levels of abstraction within the same element, and the connections between the levels as whole. The model proposes a dynamic view of the reciprocal interaction. Rajaniemi and Laaksonen (1989: 23) maintain that the levels of abstraction i.e. the subsystems are connected through processes that evolve over time.

Because the theoretical origin of the triadic reciprocal interaction model is in the field of consumer behaviour and in the interaction paradigm, its contribution to this study is not in its specific subject matter related to consumer behaviour but in its potential to provide

understanding and to conceptualize the system of interrelated elements at different levels of abstraction. Thus the model helps us to proceed in the analysis of the dynamic interaction between the retail format, managerial behaviour and context, which as it is assumed in this study, occurs simultaneously at two levels of abstraction. In this study the retail format, managerial behaviour and context make up a system of interacting elements in which the two levels of analysis can be regarded as two subsystems of the model. In the analysis of this kind of system, as Rajaniemi and Laaksonen (1989: 8) have pointed out, both the content of the elements and the nature of the interrelations between the elements should be examined. This can be done by taking into account the changes in the elements at the two different levels of abstraction (sections 3.4.3. and 3.4.4.).

The reciprocal interaction model to be developed in this study focuses on the retail change phenomenon from the interaction perspective. The assumption that retail change is produced by the dynamic reciprocal interaction between retail format, managerial behaviour and context means that changes in one of the three elements are reflected in the two other elements. There are both multiple effects and multiple responses between the elements. The views concerning the existence of effects and responses between various elements have been included e.g. in the descriptive model presented by Sampson and Tigert (1994: 54–57) (section 2.3.2.), and in the framework for analysing the formation and transformation of marketing systems put forward by Kumcu (1987: 128–129). In Kumcu's framework also the reciprocal nature of the relationships among key variables is recognized (Kumcu 1987: 129).

It must be noted here that because of the multiple effects and responses, and the random factors included it is impossible to hypothesize and predict each particular outcome produced by the changes in the relations. Thus instead of analysing and identifying the multiple effects and responses between the three elements and determining and specifying their directions, the focus in this study is put on the analysis of the changes and adaptation between the elements and particularly the relations between the two interaction systems (or the institutional and operational levels) in producing retail change. It is assumed that this kind of analysis will lead towards the understanding of the dynamic interaction and adaptation between institutional and operational levels as a source for retail change.

The analysis and modelling of the dynamic reciprocal interaction between the retail format, managerial behaviour and context is guided by the explicit choices made in this study concerning the selection of the concepts, the units and levels of analysis, the scope of the phenomenon examined and the degree of specificity required for the description of the phenomenon. The choices related to the three interrelated criteria, parsimony, differentiation and scope are presented in Figure 7. In this study the parsimony and differentiation criteria are maximized. As it is possible to only maximize two of the three criteria, the third criterion, scope has to be kept narrow.

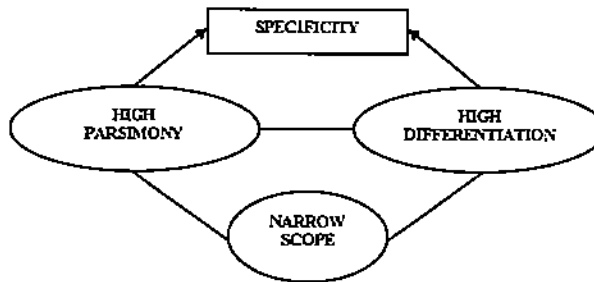


Figure 7. Choices concerning the interrelated parsimony, differentiation and scope criteria direct the analysis of the reciprocal interaction towards specificity.

The reciprocal interaction model to be developed in this study is parsimonious. The model focuses on conceptualizing the interaction between the three elements. In order to understand the dynamic interaction a description of elements and relations both at the institutional and operational level is needed. These two levels of analysis affect the decisions concerning which one of the two remaining criteria should be maximized. As the analysis of the reciprocal interaction especially at the institutional level requires description and analysis at a rather high level of abstraction, it is better to try to achieve high differentiation in the three main elements than to try to maximize the scope i.e. the range of the phenomenon which should be covered in the model. The decision to keep the scope of the model narrow is consistent with the need acknowledged in this study namely the need to lead the analysis of the reciprocal interaction and thus the theory development towards context-bound accounts of retail change. From the viewpoint of the empirical analysis the narrow scope of

the model means for instance that the model should be applied to describe the evolution and adaptation of a given retail format operating in a given context.

3.4.2. Elements, relations and the levels of abstraction

Before going to the more specified analysis of change and adaptation from the viewpoint of the reciprocal interaction, the elements of the model are defined and described, and the relations between the elements are identified. The two levels of abstraction, the institutional and operational level are acknowledged in the following examination as the nature and the definition of each element depend on the level of abstraction used in the analysis.

Elements of the model

Thus far in this study each of the three elements have been treated as a single homogeneous element and described by using abstract terms without taking into consideration the various factors which make up the element. In order to identify and determine these factors and in this way understand the nature and main characteristics of each element a distinction must be made between retail institutional factors and retail operational factors. In this study this is done by examining each element both from the retail institutional and operational perspective as it is believed that the two levels of analysis provide a natural starting point for a more detailed analysis of these elements. The three elements of the model, retail format (RF), managerial behaviour (MB) and context (C) are described in general and in a summarized form both at the institutional level (the outer triangle) and at the operational level (the inner triangle) in Figure 8.

Retail format. At the highest level of abstraction, at the institutional level, the retail format refers to a given retail institution or retail institutional form which has its typical institutional characteristics. At the institutional level the retail format element can be analysed by focusing on the one hand on those aspects of this element which are related to the retail concept and on the other hand focusing on factors which determine the particular retail business or businesses in which the retail format operates and which thus affects the retail

format's position in a retail institutional structure and in a retail system. As there is a close connection and interaction between retail format and its institutional context, the proper description and characterization of the retail format element requires the acknowledgement of the contextual and managerial features which have effects on this element. This means that the very nature of any element of the model can be understood by looking at it also from the perspective of any other elements.

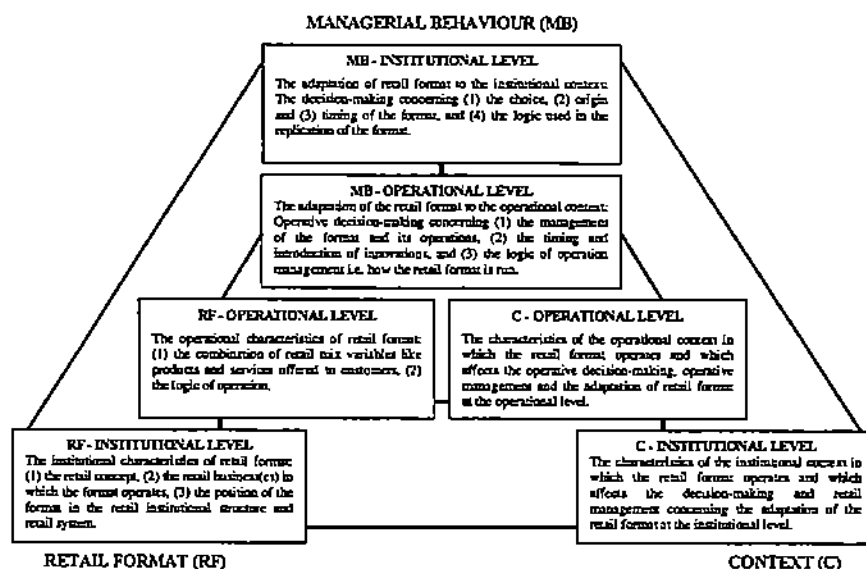


Figure 8. General description of the elements of the dynamic reciprocal interaction model at institutional and operational levels.

At the operational level the retail format element can be analysed and described by focusing on the particular operational characteristics which can be regarded as distinctive to the given retail format under examination. The operational characteristics of the retail format are a result of a creative combination of different retail mix variables such as the products and services offered to customers. In addition to the specific retail mix variables used by the retail format, the logic of operation like the adoption of a franchising system gives a retail format its particular operational characteristics which should be included in the analysis. Other important operational characteristics of a retail format refer for instance to the

adoption of the POS-system (point of sales system) and other operational systems which are used in monitoring consumer demand and the changes in the retail marketplace.

Managerial behaviour. The managerial behaviour element is an important behavioural determinant of retail change. In its broadest sense this element covers numerous aspects of retail management including the broad issues related to the retail institutional and system level adaptation, strategic planning and decision-making. This element covers also more specific issues of retail management concerning for instance a retail store's day to day operations. At the institutional level this element refers to the retail decision-makers' actions concerning how the retail format is adapted to changes in the context and in the retail environment. At this level of analysis the managerial behaviour element should be analysed by taking into account factors like the decision-making concerning the choice and origin of the format, the timing of the format and the logic of replication of the format (e.g. franchising and chain store operations).

At the operational level the managerial behaviour element refers more concretely to retail decision-makers' actions and decisions concerning how the retail format is managed, operated and adapted to the changes in the operational context. In the analysis of this element the focus should be on issues and factors related to the operative decision-making regarding the management of the format and its daily operations as a response to the changes in the operational context. This kind of decision-making includes for instance active monitoring and scanning of the retail environment for finding various environmental cues, which should be taken into account in the operative decision-making. As this element refers also to the timing and introduction of innovations and to the possible incremental improvements made in the retail format at the operational level, also these retail management related factors should be included in the analysis of this element at the operational level.

Context. In the broadest sense the context element covers factors related to both the internal and external retail environment. As it can sometimes be difficult to define the boundaries between a given retail institution and a retail environment (section 3.1.3.) it can sometimes also be problematic to make a clear distinction between retail format and it's context. It was

maintained earlier in this study that a proper description and characterization of the retail format element requires the acknowledgement of the contextual and managerial features affecting it. This close interrelatedness of the three elements should also be acknowledged when defining and analysing the context element.

At the institutional level the context refers to the institutional context in which the retail format operates and which affects the retail decision-making concerning the adaptation of retail format at the institutional level. In this study the context element at the institutional level refers to those particular institutional circumstances and environmental factors which are considered as significant and relevant from the retail change point of view by the retail decision-makers. Thus at the institutional level the analysis of the context element should take into account contextual factors like the retail institutional structure, and its dynamic nature, retail format's position in this retail structure and in the more broader retail system. An institutional context can also be described by a variety of culture related factors. When analysing these cultural factors, the focus should be put only on those cultural aspects which most clearly characterize the cultural environment in which the retail format operates. From the viewpoint of retail management it is important to acknowledge those retail environmental and contextual cues and factors which are considered as potential agents of change by retail decision-makers. These factors can be identified by examining which factors and environmental cues are more often monitored and scanned by retail decision-makers.

At the operational level the context element refers to those characteristics of the operational environment in which the retail format operates and which affects the operative decision-making, operative management and the adaptation of the retail format at the operational level. As retailers' operative decisions are influenced by consumer and competition related factors, and the dominant management culture, these factors should also be taken into account in the analysis of the context element. The analysis should include also the identification and examination of those contextual factors which have an effect on the way a retail format operates. The dynamic nature of the context at this level of analysis should be acknowledged as typically there are more rapid changes in the context at the operational level than in the context at the institutional level.

Relations of the model

Three main types of connections and relations between the elements of the model can be identified (see Rajaniemi & Laaksonen 1989: 20). The first type of relation is the connection between the three elements at the same level of abstraction. These relations are depicted in the model with two triangles which refer to the dynamic reciprocal interaction between the elements at different levels of abstraction (Figure 6). The relation between the elements at the institutional level refers to the institutional dynamics whereas the relation between the elements at the operational level refers to the operational dynamics.

The second type of relation is the relation between the different levels of abstraction within the same element. In the reciprocal interaction model these relations are depicted with lines which connect the two triangles together (Figure 6). In order to analyse a given element from the viewpoint of this relation the particular internal nature of an element and the differences between the institutional and operational aspects of an element should be acknowledged. It is important to note that the relation between institutional and operational levels within a given element acts as a path through which the various changes in that element are reflected reciprocally between institutional and operational levels. Because this relation deals with a relation within the same element, it is assumed that the changes are reflected more rapidly within the same element than between different elements.

The third type of relation is more complex than the other two types of relations because it refers to the relations between the different levels of abstraction as a whole (Rajaniemi & Laaksonen 1989: 20). Actually this relation includes the other two types of relations. The three interacting elements with the relations between and within them form a single holistic interacting system. However because of the multiple relations included in this system and the dynamic reciprocal nature of these relations, it is better to approach the reciprocal interaction between the three elements of the model from the viewpoint of the two other types of relations rather than from the viewpoint of a single dynamic system.

Next the relations between the elements are examined by focusing on how they are related to the institutional and operational dynamics and adaptation. It is assumed that there is a connection between these two types of adaptation. This connection is critical from the retail change point of view as retail change is produced by the reciprocal interaction between the institutional and the operational level. This means that the changes in the institutional level are reflected in the operational level and vice-versa. Thus because of the reciprocal interaction the changes in the elements at the institutional level have an effect on the elements at the operational level. Similarly the elements at the operational level have an effect on the elements at the institutional level. It must be noted here however that although this reciprocal interaction is assumed to exist, not all changes in elements are powerful enough to have an effect on other elements. It is therefore better to discuss the potential effects between the elements. It must be noted that for the purpose of clarity these two types of dynamics and adaptation are discussed separately in sections 3.4.3. and 3.4.4.

3.4.3. Institutional dynamics and adaptation

The examination of the institutional dynamics and adaptation focuses on the relations between the elements at the same level of abstraction, the institutional level (i.e. the first type of relation). The institutional dynamics refers to the changes which take place at the institutional level in the relations between the retail format, managerial behaviour and context. In other words the institutional dynamics is produced by the dynamic reciprocal interaction between the three elements. Because of the reciprocal interaction a change in one element is reflected in other elements. In order to survive and cope with changes at the institutional level retailers have to be able to adapt to the changes. This retail decision-makers' adaptive behaviour is referred to in the following discussion of the reciprocal interaction model as institutional adaptation. It must be noted however that in this section institutional adaptation is mainly discussed from the viewpoint of timing and adaptation of retail innovations.

A conceptualization of the retail institutional dynamics and adaptation is illustrated in Figure 9. The reciprocal interaction between the three elements at the institutional level is depicted

at the outer triangle. The possible changes and the corresponding adaptations in the relations are depicted with three narrow two-directional arrows. Because there is also a close relation between the two levels of analysis within each of the elements (i.e. the second type of relation) the institutional changes also have effects on the operational level. These connections between the institutional and operational dynamics are depicted in Figure 9 with three broad arrows pointing to the operational level. The grey area refers to the overall effect of institutional changes and adaptation on the operational level.

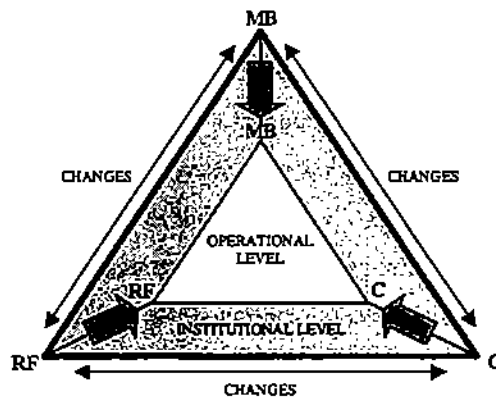


Figure 9. Institutional dynamics and adaptation. The dynamic reciprocal interaction between retail format (RF), managerial behaviour (MB) and context (C) at the institutional level and its effects on the operational level.

Retail institutional changes have an evolutionary nature in the sense that they are typically long-term changes, which take place slowly over a long period of time. However a retail system can also face periods when the retail institutional change is sudden and discontinuous (section 3.1.1.). Thus a major change in the managerial behaviour element (e.g. the introduction of a retail innovation or a new retail practice) or in the context (e.g. the radical change in the customer demand) can create sudden, revolutionary changes. There is always the possibility of random changes which can alter the course of retail institutional change. Thus from the reciprocal interaction viewpoint the retail institutional change is not a deterministic, predictable process. In spite of this the view of change acknowledged in the reciprocal interaction model can be used in identifying different stages of the retail

institutional change in a given context. By examining the relations between the elements it is possible to identify stages or specific periods of time when a particular relation or change in a given element can be regarded as the most critical determinant of the retail institutional change. As there is a connection between institutional changes and operational changes, an operational change can also have an effect on the institutional level, producing retail institutional changes (section 3.4.4.). Thus when identifying the stages of the retail institutional change both the first and second type of relations should be taken into account.

In general retail institutional changes occur slower than retail operational changes. Many examples in modern retailing imply however that the rate of retail institutional change is accelerating. Among the reasons for this are factors typically related to global retailing: the increased use of information technology in many fields in retailing, the shortening institutional life cycles, the increasing diversification of retail formats, and the rapid copying, imitation and diffusion of retail innovations and retail strategies (see e.g. Brown 1990b: 51; Fullerton 1986: 279; Morganosky 1997; Schnaars 1994; Davies 1998: 174; Lehti 1990). It seems therefore that retail dynamics is more and more often characterized by quick short-term changes caused by active retail management and planning. It must be noted here however that there are a number of retail institutional factors related to the retail environment or context, over which an individual retail decision-maker has very little if any control.

Although managerial behaviour is only one of the main determinants of retail institutional change, it has an increasingly important role in the retail institutional change. Big international retailers for instance are undoubtedly powerful agents in the retail institutional change. In the reciprocal interaction model retailers' active role in producing retail change is explicitly acknowledged in the managerial behaviour element. It is assumed that in modern retailing the creation and introduction of retail formats and the creative adaptation of retail innovations are the results of the creative and intellectual activities of retail decision-makers (e.g. Quinn et al. 1997). Therefore the increasingly dynamic nature of global retailing or the various changes caused e.g. by e-commerce cannot be explained with any historical repetitive cycles or processes but with the creative behaviour of retail actors.

When analysing the institutional dynamics from the viewpoint of managerial behaviour element some central notions concerning the management of innovations and change in general found in the innovation and network literature should be noted. Quinn (1985: 82) has argued that an incrementalist approach is needed in innovation management. The incrementalist approach emphasizes the learning process and feedback so that the process can be both open to new directions and flexible (Quinn 1985: 82; Holbek 1988: 258). This approach seems to be a proper approach also in the context of retailing in which most innovations, especially those which are creative adaptations, are often incremental rather than purely revolutionary (e.g. Schnaars 1994: 7). In their discussion of the management of change in the context of business networks Håkansson and Snehota (1995: 282) have argued that change can be managed in two ways: either by absorbing the change in the context or by generating and concurring it. This kind of adaptive behaviour by retail decision-makers is explicitly acknowledged in the reciprocal interaction model.

The managerial behaviour includes a variety of tasks ranging from for instance the adaptive behaviour needed when adapting a retail format to the changes in the context to the adaptation needed when transferring a retail format from one context to another. In this study the management and the coping with change at the institutional level is examined primarily from the viewpoint of the timing and adaptation of retail innovations. The timing refers to the introduction of a retail institution or a retail format in a given retail system or a context at a given time. From the viewpoint of managerial behaviour the central questions are when and in which form a retail innovation, retail institution or retail concept is introduced into a given context. As the introduction should take place at a time when the context provides the most suitable circumstances for the existence and growth of a retail format, there should be a fit between the retail institution (the retail format element) and the retail environment (the context element).

The environmental fit can be identified by using longitudinal analysis to reveal the particular institutional processes and contextual characteristics which have prevailed at the time of the introduction of a retail institution. Also the nature of retail change in a given context and a retail format's position in the retail structure and in the overall retail development process in

a given context should be noted. It is equally important to take into account factors related to consumer demand, retail competition, current local and global retail trends. There are a number of historical examples in the retail change literature which show how specific circumstances and processes have affected the emergence and the evolution of the retail institutions (e.g. Cundiff 1988; McNair & May 1976, 1978; Arndt 1972).

3.4.4. Operational dynamics and adaptation

Operational dynamics and adaptation refers to the changes in the three elements at the operational level. These changes are caused by the dynamic reciprocal interaction between the elements, as it is assumed that there are both multiple responses and multiple effects between the three elements at the operational level. Compared to institutional dynamics, operational changes are more directly influenced by the managerial behaviour element. At the institutional level some changes, e.g. in the retail institutional context or in the retail trends, are beyond the control of retail decision-makers. At the operational level however retailers can use both proactive and reactive actions to control and manage changes. Retail decision-makers' adaptive behaviour concerning the active management of change is termed here as operational adaptation. Although operational adaptation in general covers a broad range of operative decisions it is in this study mainly discussed from the viewpoint of the timing and adaptation of operational innovations and practices.

Figure 10 shows a conceptualization of operational dynamics and adaptation which takes place at the operational level (the inner triangle). The three narrow two-directional arrows represent the possible changes and the corresponding adaptations in the relations between the elements at this level of abstraction. According to the reciprocal interaction model the operational dynamics are produced by the interaction between retail format, managerial behaviour and context. Operational dynamics have an effect on the institutional level. These effects are reflected in the institutional level through the connections between the two levels of abstraction within the same element. These effects are depicted in Figure 10 with three broad arrows pointing from the operational level to the institutional level. The grey area

inside the inner triangle refers to the overall effect of changes and adaptation at the operational level on the institutional level.

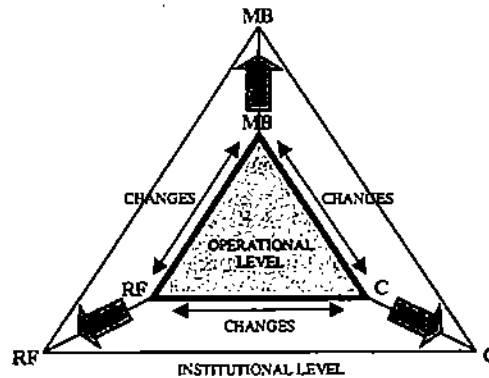


Figure 10. Operational dynamics and adaptation. The dynamic reciprocal interaction between retail format (RF), managerial behaviour (MB) and context (C) at the operational level and its effects on the institutional level.

The nature of operational dynamics can be analysed by examining the relations and the interaction between the elements at the same level of abstraction (i.e. the first type of relation). Because operational changes typically occur more rapidly than institutional changes, a shorter time-span is required in the analysis of operational changes than in the analysis of institutional changes (e.g. Fisk 1988: 61). When analysing operational dynamics it is more essential to note those short-term changes which take place at present than those changes which have occurred in the past. Thus it can be argued that in the analysis of operational dynamics more emphasis should be put on the analysis of the contemporary changes caused by retail decision-makers (i.e. managerial behaviour element; the revolutionary type of changes) rather than on the analysis of the long-term evolutionary type of changes.

It is assumed in the reciprocal interaction model that the changes in the elements and relations at the operational level are reflected in the institutional level. This happens through the interaction between the different levels of abstraction within the same element. Thus for instance rapid changes at the operational level (e.g. introduction of operational innovations)

can accelerate the rate of change at the institutional level. Because of the interrelatedness of the institutional and operational dynamics, they have a combined effect on the rate and nature of retail change in a given retail system.

Operational changes are in general more rapid than institutional changes. In retailing the time parameter has traditionally been associated for the most part with an inventory function (Gattorna 1978: 493). As time is one of the main competitive factors and a potential source of differential and performance advantages (e.g. Quinn 1985: 76) its significance in retail operation management is not limited to its use related to retail mix variables like merchandising. There are examples which show how a compressed time has been used strategically to increase productivity and prices, and to reduce risks (e.g. Stalk & Hout 1990: 31). For instance Japanese manufacturers and retail companies have implemented time-based competition strategies (i.e. competition by the means of providing most value for the lowest cost in the least amount of time) in order to compete in a dynamic retail environment (e.g. Stalk & Webber 1993; Stalk & Hout 1990: 31). Time-based competition is one of the causes for the accelerated operational dynamics and the retail institutional dynamics.

From the viewpoint of the managerial behaviour element the main interest here is in those operational changes which are caused by retail decision-makers and which are related to the active management, control and timing of retail operations and retail mix variables (see e.g. Swinyard 1997: 245–246; Corstjens & Corstjens 1995; Shaw & Dawson 1996: 60–61). Retailers can with correct timing and skilful adaptation to the changes in the retail environment actively affect the direction of the retail change process. Thus changes at the operational level are closely related to retailers' strategic and daily operative decisions. Both proactive and reactive types of actions are needed in order to cope with the change, to manage the retail change process and to respond to retail environmental changes.

Managerial behaviour both at the institutional and the operational level is constrained by the context. Thus for instance factors related to the flexibility or rigidity of the retail structure affect managerial behaviour and the nature of retail change. The differences in the nature and

rate of the operational dynamics are caused by the differences in the retail format, managerial behaviour and operational context. The adaptive behaviour at the operational level can be analysed by examining how particular retail institutions like convenience stores with the operational innovations included in them have been adapted to operate in different operational contexts and to suit particular contextual characteristics.

There are some critical questions related to the operational dynamics and adaptation. From the viewpoint of managerial behaviour it is important to know for instance how operative decisions are timed in relation to the changes in the retail environment. Other questions include how retailers adapt and respond to the rapidly changing retail environment and operational context and in what extent this adaptive behaviour depends on the given context.

3.5. Conclusions

In this chapter the possibilities for modelling and conceptualizing the dynamic interaction between the retail format, managerial behaviour and context were examined and discussed. In the beginning of the chapter the systemic character of retail change and the various types of change were examined. It was argued that both the evolutionary and revolutionary nature of retail change should be acknowledged in modelling the change of retail systems. It was found that because of the variation in the managerial behaviour and in the retail environmental factors retail change does not follow a universal path with predetermined stages. Thus the inherently deterministic accounts of retail change were rejected and it was argued that there are only limited possibilities for predicting future changes in retailing on the basis of models describing past developments in retailing. The analysis and modelling of retail change should be based on more relativistic assumptions of change and interaction.

The general system level model was presented in order to conceptualize the general dynamics in retailing and to illustrate the dynamic interaction between the retail system and the retail environment. It was argued that both longitudinal and cross-sectional approaches are needed in the analysis of the retail changes in order to capture both the evolutionary and revolutionary aspects of retail change. The analysis of retail change at the system level

cannot however reveal the managerial behaviour resulting from revolutionary changes. Thus analysis and modelling should be done also at lower levels of abstraction, namely at the institutional and operational levels.

The choices concerning the three interrelated criteria, the parsimony, differentiation and scope were selected to guide the fundamental choices regarding the analysis and modelling of the dynamic reciprocal interaction. The reciprocal interaction model to be developed in this study seeks specificity, which is achieved by maximizing the parsimony and differentiation criteria and minimizing the scope criterion. Because of the high parsimony only a limited number of theoretical elements are used in the analysis and modelling of retail change.

The interaction view put forward in this study was based on the reciprocal interaction approach developed in the field of consumer behaviour. The view of dynamic reciprocal interaction acknowledged in this study emphasizes relativism and makes a distinction between the two levels of abstraction. It is assumed that the dynamic reciprocal interaction between the three elements, retail format, managerial behaviour and context, occurring simultaneously both at the institutional and operational level, produces retail change. Three types of relations and connections were identified, first the relations between the elements at the same level of abstraction, second the relations between the two levels of abstraction within the same element, and third the relations which exist between the different levels of abstraction as a whole.

Several assumptions about the nature of the dynamic reciprocal interaction were presented. The most fundamental of these is related to the interrelatedness and connection between the institutional dynamics and adaptation and the operational dynamics and adaptation. Because of the reciprocal interaction the various changes in the elements and relations are reflected from the institutional level to the operational level and vice-versa. Thus there are not only multiple changes and effects between the three elements but also a combined effect between the two levels of abstraction.

So far the study has focused on conceptualizing the dynamic reciprocal interaction. In the next chapter the research process moves from the methodological domain to the substantive domain. Thus in the next stage of the research process a case study design is formed in order to examine empirically the assumptions of dynamic reciprocal interaction. Empirical research is needed before the dynamic reciprocal interaction model can be further elaborated.

4. EMPIRICAL RESEARCH

In this chapter the research process which started from the conceptual domain, proceeds first to the methodological domain and then to the substantive domain. The chapter begins with a discussion of the methodological issues and choices concerning theory building research and qualitative research methods (section 4.1.). A qualitative research approach and a case research method with a descriptive analysis are selected as a main mode of analysis to produce empirical understanding of the evolution and adaptation of retail format in a dynamic retail context. In section 4.2. the elements and relations from the conceptual domain and the research methods from the methodological domain are combined to form an instrumental structure or a case study design for the empirical analysis. In this section the various factors guiding the formation of the empirical research setting are presented. Section 4.3. focuses on data collection and the implementation of the personal interviews. In sections 4.4. and 4.5. the case study design is implemented by applying it to some elements and relations from the substantive domain. This is done by analysing the evolution and adaptation of two retail formats operating in different contexts, in the Finnish and the Japanese retail systems. Finally in section 4.6. a cross-case analysis is conducted in order to demonstrate the observed similarities and differences between two retail formats in regard to their evolution and adaptation in dynamic context. The conclusions of the empirical research are drawn in section 4.7.

4.1. Methodology for theory building research

The choices made in this study concerning the use of the qualitative research approach and methodology and case research methods in the empirical part of the study are guided by the research problem and the purpose and objectives of the study, and by the phenomenon of interest (e.g. Bonoma 1985: 201–202; Eisenhardt 1989: 533, 536; Yin 1991: 15–20). Similarly the choices are influenced by the fundamental choices made in the beginning of the study concerning the basic research orientation applied and the experimental path followed (e.g. Brinberg & McGrath 1985: 62–63).

The research problem of this study is related to the analysis and understanding of the complex processes of retail institutional change. Thus far in this study the main emphasis is put on the work in conceptual domain, particularly on the formation of the reciprocal interaction model to understand and analyse retail change phenomenon. The exploratory nature of this study is evident in the overall direction of the research process, which started from the conceptual domain. Here, in this empirical part of the study the elements and relations taken from the conceptual domain, as presented in the model put forward in the third chapter, are connected to the methodological domain in order to form an instrumental structure or a study design (the case study design). Then this study design is connected to the substantive domain in order to implement it (i.e. to apply it to describe the evolution and adaptation of two retail formats). In the fifth chapter the analysis proceeds back to the conceptual domain in order to refine the model and to discuss its assumptions on the basis of empirical analysis. The overall research process of this study corresponds to the theory - data - theory revision cycle for qualitative research proposed by Bonoma (1985: 204).

As the approach of this study and the direction of the research process (section 1.4.) imply this study is a theoretical exploration which aims towards theory building rather than theory disconfirmation. The research problem cannot be solved with quantitative methods like statistical analysis or with deductive methods suitable for theory testing and verification (e.g. Bonoma 1985: 202). In order to provide understanding of the phenomenon, of institutional change and adaptation, for the next stage of the research process, the conceptual elaboration and modelling of the phenomenon in the fifth chapter, inductive methods rather than deductive methods must be used in the empirical research.

The different methods used in the theory building and theory disconfirmation can be illustrated with a research continuum showing the hierarchy of six different types of studies: description, classification, comparison, measurement/estimation, establishing association, and determining cause and effect (Bonoma 1985: 201). According to Bonoma (1985: 201) a requirement for a move along this hierarchy is that the prior types of studies have been already conducted. In this hierarchy the studies near the description end of the continuum are more often related to theory building, and the studies near the opposite end of the

continuum are more often related to theory disconfirmation (Bonoma 1985: 201). This study can be positioned near the theory building end of the continuum as the aim of the empirical research is to describe the retail change phenomenon and to produce an understanding of the evolution and adaptation of the retail format in a dynamic context.

The selection of a qualitative theory building method, a case study, is also strongly supported by the factors closely related to the characteristics of the retail change phenomenon to be analysed. With regard to the selection of the research method two central factors can be pointed out: the contextual sensitivity of the phenomenon and the possible quantification or non-quantification of the phenomenon (Bonoma 1985: 202). The foremost factor favouring the selection of a case study is the context dependent nature of retail change. By conducting descriptive cases it is possible to examine retail change in the context in which it naturally occurs (see Bonoma 1985: 202). This is especially important in this study in which managerial behaviour for instance cannot be examined if isolated from the context and the time of occurrence due to the inherent nature of the interaction between the retail format, managerial behaviour and context as assumed earlier in this study.

Case study is also selected as a primary method for the empirical research because the phenomenon under examination, retail change produced by the dynamic interaction between the three elements, cannot be quantified and measured with quantitative methods. Although it is possible to use quantitative indicators to illustrate for instance the long-term changes in the number of retail institutions, quantitative methods and data alone cannot provide a sufficient bases for the understanding of the dynamic interaction. By conducting a case study it is also possible to cope with the temporal element, the central issue of this dynamic phenomenon, in the empirical research. A requirement for a proper description of the phenomenon is the acknowledgement of the different time-spans needed in the empirical research. A case study method allows the description of the phenomenon at two levels of analysis (section 4.2.). Thus both the long-term changes at the institutional level and the short-term changes at the operational level can be examined. In this way also both the historical and contemporary events related to the phenomenon under study can be described.

Case study has been regarded as a research strategy (Yin 1991: 13–14). For instance Eisenhardt (1989: 534) has defined a case study as a research strategy focusing on understanding the dynamics present within single settings. There are two major strategies for qualitative analysis when conducting case studies (Saunders, Lewis & Thornhill 1997: 348–349; Yin 1991). The first strategy is to use a theoretical or descriptive framework to analyse qualitative data. According to Saunders et al. (1997: 348) this is an appropriate strategy for research which starts from a deductive position and in which an existing theory is used to guide the empirical analysis. Although this study has an exploratory nature and inductive theory building methods are used in the empirical analysis there are some similarities between this strategy and the strategy developed and applied in this study. The model proposed in the third chapter provides a conceptualization of the elements and relations of the phenomenon to be studied empirically. It can be regarded as a blueprint for the empirical research (e.g. Yin 1991: 37). Thus the model cannot be viewed as a model to be explicitly tested empirically or a framework which excludes the use of inductive reasoning during the empirical research.

Due to the aforementioned reasons and the methodological choices made earlier, the empirical research of this study does not purely follow the second strategy available for case studies: to explore qualitative data without a pre-determined theoretical or descriptive framework. The proponents of this strategy claim that theory building research should begin as close as possible to the ideal of no theory under consideration and no hypothesis to test (Eisenhardt 1989: 532). It has been argued for instance that this so-called grounded approach to qualitative analysis leads towards a novel, testable and empirically valid theory which has emerged from the process of data collection and analysis (Eisenhardt 1989: 546–547; Saunders et al. 1997: 349–350). In this exploratory study the aim of the empirical research is to describe the phenomenon and to produce an understanding of the evolution and adaptation of the retail format in a dynamic context. The grounded approach in its purest form is not suitable for the empirical research because the case study is used to describe the phenomenon, rather than to provide a new well-grounded empirically verified theory developed on the basis of the case studies conducted in this study.

Before presenting the choices concerning the case study design to be used in the empirical research it must be noted that the selection and use of particular qualitative research methods depends also on the field of study. For this reason there are not only a variety of approaches for qualitative research (see e.g. Dey 1993: 1–2), but also many research traditions represented in different disciplines. In this study the case analysis relies on views, practices and procedures commonly used in marketing and business studies. It is especially based on and influenced by views put forward by Bonoma (1985) and Yin (1991). Bonoma (1985: 204) has defined a case in the following way, capturing the key issues concerning the acknowledgement of the context, managerial behaviour and temporal element in case research.

A case is a description, directly obtained, of management situation based on interview, archival, naturalistic observation, and other data, constructed to be sensitive to the context in which management behavior takes place and to its temporal restraints. (Bonoma 1985: 204.)

As the definition implies, the data for case studies can be obtained from many sources and with many data collection methods. The data can be both qualitative and quantitative. Yin for instance has identified the six possible sources of evidence for case research: documentation, archival records, interviews, direct observation, participant-observation and physical artifacts (Yin 1991: 85–95; see also Bonoma 1985: 203–204; Eisenhardt 1989: 537). Typically multiple data sources are preferred in case research, although the decision concerning the use of a data source either independently or in conjunction with other sources depends on for instance the purpose and objectives of research and the issues to be studied (e.g. Yin 1991: 95–97). In this study the primary data for the case description is obtained by conducting semi-structured personal interviews (sections 4.2.1. and 4.2.2.).

4.2. Case study design

The combination of the elements and relations from the conceptual domain with the case research methods from the methodological domain leads to the formation of an instrumental structure or case study design for empirical analysis. Due to the direction of the overall research process, and the research orientation and the pathway followed in this study, this

instrumental structure is termed here as a *concept-driven design* (see Brinberg & McGrath 1985: 67–68). In the empirical research this design is implemented, i.e. combined with the corresponding elements and relations from the substantive domain. The implementation of the case study design is guided by the need to establish a fit between the three domains. This means that the choices made earlier in this study concerning the research questions, propositions (i.e. the assumptions of the model presented in section 3.4.) and the units and levels of analysis are in line with the logics and methods used in linking the data to the propositions and with the criteria used for interpreting the findings (see Yin 1991: 33, 27).

The basic choices concerning the formation of a case study design are related to the number of cases (single-case designs versus multiple-case designs) and to the units and levels of analysis (holistic designs versus embedded designs) (Yin 1991: 27–60). The case study design used in the empirical research of this study is depicted in Figure 11. This design can be termed as a *multiple-case design with two embedded cases*. The embedded design means that instead of analysing the phenomenon in a holistic manner only at a single level of analysis, multiple levels of analysis are used. The embedded design allows the examination of the retail change phenomenon both at the institutional and operational level. The acknowledgment of these two levels of analysis means in practice that both the long-term (institutional) and short-term (operational) changes are described in the cases. The selection of the embedded design rather than a holistic design is supported by both the research problem of this study and by the theoretical assumptions put forward in the dynamic reciprocal interaction model.

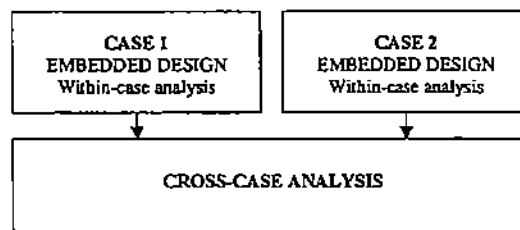


Figure 11. Multiple-case design used in the study: two cases with an embedded design and a within-case analysis, and a cross-case analysis between the cases.

The aim of each case is to describe the evolution and adaptation of a retail format in a particular context in order to examine and to illustrate how the interaction between the three elements both at the institutional and operational level produces retail change. The case research is conducted in two stages. The first stage of empirical analysis focuses on describing the major changes concerning the evolution and adaptation of a retail format in a given context (sections 4.4. and 4.5.). In this stage the two cases are conducted independently of each other. Both cases include a within-case analysis (the actual case description) and conclusions. The second stage of empirical analysis, which is done after conducting the two cases, involves a cross-case analysis in which the observed similarities and differences between the cases are described and examined (section 4.6.).

4.2.1. Rationales for selecting the cases

The case study design presented in Figure 11 depicts the choices regarding the number of cases and the use of embedded design. The strategic decision to use two cases with embedded design rather than a single case with embedded design was supported by the need to analyse retail change in different contexts and to examine the possible observed differences and similarities between the two cases. In general the question of how many cases should be included in the multiple-case design depends also on factors like the method of analysis and the logic used in the cross-case analysis (e.g. the replication logic; Yin 1991: 53–59), the level and units of analysis, and the time and financial resources available for doing the case research. The formation of a case study design includes also several more detailed choices related to sampling (the theoretically driven sampling; e.g. Miles & Huberman 1994: 30) such as for instance the selection of the relevant levels and units of analysis, the retail systems, the particular retail formats to be examined and the persons to be interviewed in the empirical research. The rationales for all these choices stem from the research problem of this study and above all from the theoretical foundations (and the elements and relations) of the dynamic reciprocal interaction model. Next these strategic choices and the rationales behind them are presented.

Levels and units of analysis

The core concept and the main unit of analysis in the empirical analysis is a retail format. In this study a case research method is used to describe the evolution and adaptation of a retail format in a particular context in order to examine and illustrate how the interaction between the three elements (retail format, managerial behaviour and context) both at the institutional and operational level produces retail change. According to the interaction model two interaction subsystems can be identified: the interaction between the elements at the institutional level (i.e. institutional dynamics) and at the operational level (i.e. operational dynamics). In this study these two subsystems are regarded as logical subunits (e.g. Yin 1991: 49) and as the distinctive levels of analysis in the empirical research.

According to the model, these two interaction subsystems form together a more complex interaction system. Although the empirical research focuses on describing the changes in the three elements at the institutional and operational levels, this third level of analysis, the system level, must be implicitly acknowledged in order to understand how the interaction between the institutional and operational dynamics produces retail change. The system related dynamics in retailing concern the third type of relations proposed by the model (section 3.4.2.) and are related to the fourth objective set for this study (section 1.3.). The system related dynamics are not explicitly examined and discussed within the substantive domain but within the conceptual domain in the fifth chapter of this study (section 5.2.). In the empirical research however the system level, the highest level of analysis and abstraction, refers to the retail system of a given country, in which both the evolution and adaptation of the retail format takes place. As this dynamic system incorporates the two other levels of analysis, it is examined in the empirical research from the perspective of the interaction between the institutional and operational levels.

Although the reciprocal interaction model states the key assumptions about the main elements, relations and the effects between the levels, a considerable focusing must be made when using the model to guide the empirical research and when selecting for instance the corresponding units of analysis and the issues to be examined from the substantive domain.

One of the basic choices made in this study is the aim to lead the analysis and modelling of retail change towards specificity (section 3.4.1.). In this study the needed focusing is achieved by concentrating on describing only the major changes in the three elements and on describing how these changes have been related to each other. Table 7 summarizes the different levels and units of analysis, and the main issues to be examined, concerning the three elements of the model.

Table 7. Levels and units of analysis, and the issues to be examined, concerning the retail format, managerial behaviour and context elements in the empirical research. The core concept in the empirical analysis is a retail format.

LEVEL OF ANALYSIS	UNIT OF ANALYSIS		
	RETAIL FORMAT	MANAGERIAL BEHAVIOUR	CONTEXT
SYSTEM LEVEL	Overall dynamic system, a retail system of a given country, in which the retail format change takes place. Retail institutions (i.e. retail formats) are open subsystems in the overall system. Changes at the system level are approached in the empirical research from the perspective of the institutional and operational dynamics, i.e. from the institutional and operational levels.		
INSTITUTIONAL LEVEL	Retail format viewed from the institutional perspective. Main long-term institutional changes in the retail format.	Institutional adaptation: Strategic managerial behaviour related to the main institutional changes. Timing of the main changes in the retail format. Changes in strategic managerial behaviour.	Institutional context of retail change. Main long-term changes in the institutional context.
OPERATIONAL LEVEL	Retail format viewed from the operational perspective. Main short-term operational changes in the retail format.	Operational adaptation: Managerial behaviour related to the main operational changes. Timing of the main changes in the retail operations. Changes in operative managerial behaviour.	Operational context of retail change. Main short-term changes in the operational context.

For each case a retail format is selected from the retail system of a given country. The empirical research focuses on describing the long-term institutional and short-term operational changes concerning the retail format. The aim is to identify and to describe only the main changes and to acknowledge the different time-spans related to these changes. A focused description is especially needed when describing managerial behaviour. The changes in the managerial behaviour element are examined from the viewpoint of the institutional and operational adaptation. The examination of the decision-making processes involved is out of the scope of this study. The underlying question concerning the managerial behaviour is what has been done to adapt a particular retail format to the changing institutional and operational context in order to create a fit between the retail format and the retail environment. This issue is examined by identifying the many improvements and retail

innovations introduced during the course of the evolution and adaptation of the retail format and by presenting the timing of these changes. The general and specific interview themes corresponding to the levels and units of analysis are presented in section 4.2.2.

Retail systems

At the highest level of abstraction the two retail systems, from which the particular retail formats are selected for the empirical analysis, make up the overall cultural, structural and behavioural context in which the retail change phenomenon takes place. Because in the analysis of managerial behaviour the focus is put on describing both the institutional and operational adaptation, it is essential to select the two retail formats from a retail system which can be regarded as an adaptive system. However the two retail formats should be selected from retail systems which have different rather than similar contextual characteristics in order to examine the context dependant nature of a retail change phenomenon, and to carry out a cross-case analysis focusing on the observed similarities and differences in the evolution and adaptation of the retail formats.

In the empirical research the retail change phenomenon is examined in the context of Finnish and Japanese retail systems. The Finnish retail system is selected to represent an adaptive system which in general is characterized by a rigid retail structure with a relatively small number of retail actors (large trading groups) and a relatively low variety of retail formats. In addition to the prevailing oligopolistic competition in retailing the other features of this system are for instance the strong tradition of cooperative and private retail companies. The search for both the economies of scale and scope has led to a retail structure which is dominated by large-scale retail units like hypermarkets and shopping centres and other retail formats operated with chain-store management practices (section 4.4.1.).

The main characteristics of the Japanese retail system is the parallel existence of a traditional retail structure and a modern retail structure (the so-called dual structure), the mass consumption retail markets and the existence of a relatively large number of retail actors, and a great variety of retail formats (section 4.5.1.). Both Finnish and Japanese retail

systems are adaptive retail systems in which most of the retail formats and innovations originate outside the system.

Retail formats

The selection of the particular retail format for the empirical analysis is guided by the assumptions of the model and by the choices made earlier concerning the Finnish and Japanese retail systems. An initial idea was to select identical retail formats from both systems. A retail format should be regarded as an innovative retail format with regard to its operations and it should operate in a dynamic field of retail business. In order to use it as a coherent unit of analysis the selected format should be an easily defined, already established retail institution which can be clearly distinguished from other retail institutions operating in the same retail system. In addition to these factors the selection of the retail format was guided by two other criteria, namely the dynamic nature of the retail format and the availability of data about the retail format.

Above all the selected retail formats should be regarded as dynamic. As the cases are descriptions of the evolution and adaptation of a retail format in a particular context, it is essential that the retail formats described in the cases can be regarded as dynamic both in terms of the long-term institutional dynamics and the short-term operational dynamics. Thus the evolution and adaptation of the retail format selected for case research should reflect these both aspects of retail dynamics.

From the viewpoint of the first dynamic aspect, the long-term institutional dynamics, the retail format should be an established retail format with a long history rather than a newly emerged retail format. This is important in order to identify and to describe, by using longitudinal descriptive analysis (section 3.2.), the incremental processes and the major stages in the evolution and adaptation of retail formats. It must be noted here that the choices concerning the description of the long-term changes in the retail format are closely related to the time boundaries of the cases and to the definition of the beginning and the end of each case (e.g. Yin 1991: 33). Also the second dynamic aspect, the short-term operational

dynamics, should be taken into account when selecting the retail formats for empirical analysis. This can be done for instance by selecting the cases from such a field of retail business which is very sensitive to the changes in consumer demand and from which illustrative examples of operational changes can be found.

On the basis of the aforementioned issues, especially those related to the dynamic aspects, the retail format was first selected from within the Japanese retail system. Among the rich variety of retail formats belonging to the Japanese retail system a convenience store format (Seven-Eleven Japan Co., Ltd.) was selected for the case research (section 4.5.). One reason which encouraged and supported this decision was that already in an early stage of the research process a preliminary understanding of the nature of the Japanese convenience stores as a retail institution was formed based on the secondary data collected on the subject (Huuhka 2000), (section 4.3.). It was later found that the selection of Seven-Eleven Japan for one of the two strategic cases in the empirical research was well-grounded from the viewpoint of the various selection criteria put forward earlier in this chapter.

A convenience store is an example of an internationally well-known and widely diffused retail institution¹. The convenience store format was transferred to the Japanese retail system from the US from which this retail innovation also originates. Although not an original Japanese invention, the convenience store (as represented in this study by Seven-Eleven Japan) is however a well-established retail format in the context of the Japanese retail system. The evolution of convenience stores in Japan can be used to illustrate the long-term and short-term changes in the retail format and to show how the format has been adapted to suit the changes in the retail environment. A number of innovations have been introduced in Japanese convenience stores making it one of the most innovative retail formats in the Japanese retail system (e.g. Huuhka 2000). The convenience store retailing business is also

¹ The convenience store originates from the US in the 1920s (e.g. Kotler 1988; Vastine 1991). According to Kirby (1986: 8) a standard American convenience store is a small, compact self-service outlet of about 2400 sq ft (223 m²) in size, stocking just over 3000 lines with some 40 percent of sales from refrigerated goods. In Britain the convenience store is a self-service store, usually 1000–3000 sq ft (93–279 m²) in size, located close to housing, with some parking facilities, offering a wide range of goods including grocery and CTN products (confectionery, tobacco products and newspapers), chemist sundries, alcohol and possibly other lines including video rental, fast food or petrol, and has long opening hours, including Sundays (Verdict Research 1985, ref. Kirby 1986: 8, 10).

among the most dynamic retail businesses in Japan due to the highly dynamic consumer markets in which the convenience stores operate. It can also be argued that in general a convenience store format epitomizes well the fastness and speed inherent in the retail operations.

Although the first retail format considered for the empirical analysis was a convenience store retail format (represented by Seven-Eleven Japan) the final decision regarding its selection as the strategic case in the empirical analysis was not done before all the potential, research strategy viewpoint well-grounded alternatives for the second case were considered. As there are not convenience store chains like Seven-Eleven in Finland, the Finnish equivalent for the Japanese retail format had to be selected from among those formats which most closely match the characteristics of convenience stores. Thus only a very limited number of alternatives were available for this selection. These include small-scale retail stores like grocery stores and stores selling perishables, small shops adherent to car service & petrol stations and especially the kiosk type of retail outlets. From these alternatives the kiosk type of retail format (represented by the R-Kiosk chain) was finally selected for the Finnish case (section 4.4.1.). One of the main reasons for selecting this particular retail format and this field of retail business was that the most recent developments concerning this retail format in Finland, like the introduction of additional services, imply that this retail format has been actually transforming into a convenience store format.

The selection was also supported by the fact that the convenience store retailing business has more resemblance to kiosk retailing than to the grocery retail business or the petrol retail trade. The kiosk retailing business is also more dynamic than the other two alternative retail businesses. The kiosk retailing business (and the R-Kiosk retail format) reflects also the same aspects of fastness and speed which are characteristic of convenience store retailing. Thus it can also illustrate the institutional and operational dynamics better than any of the retail formats selected for instance from within the grocery retailing business which in Finland traditionally has been characterized by structural rigidities and oligopolistic competitive settings. It must be noted here that although the development in the field of car service & petrol stations in Finland (e.g. the broadening of product assortments, the

introduction of fast food) has many similarities with the early development of convenience store retailing in many countries (e.g. Kirby 1986), this pattern of development does not match the development of the convenience stores in the context of the Japanese retail system (section 4.5.1.).

The availability of both primary and secondary data needed in the case research was also taken into consideration when selecting the two aforementioned retail systems and retail formats. This issue was especially important from the viewpoint of the Japanese case because a great deal of the useful secondary data sources concerning Japanese convenience stores, the Japanese retail system and retail management practices were in the Japanese language and thus inaccessible for this research. In spite of this, quite a lot of information about Japanese convenience stores, especially about the Seven-Eleven stores, and the Japanese retail system was available in English. Actually it was found in the data collection stage that there was much more secondary data about the Japanese retail format than about its Finnish equivalent (section 4.3.1.).

Also the possible problems concerning the comparability of the secondary data (e.g. retail statistics) were noted when forming the case study design. For instance the quantitative data about the Japanese and Finnish institutional structures were not fully comparable due to the different definitions and classifications used in retail statistics. These kind of problems were however avoided in the empirical research because any direct comparisons of the contextual characteristics or retail structures are not made in the case research.

Interviewees

Because of the qualitative research approach applied in the empirical research, the primary data for the case research are obtained by conducting personal semi-structured interviews in the two selected retail companies. The foremost factor guiding the selection of the key interviewees for the case research was the information needed to fulfil the aim of the cases. The personal interviews ought to provide sufficient information for the description of the

evolution and adaptation of the retail format. Both the long-term institutional changes and the short-term operational changes should be covered in the cases.

Both retail formats selected for the case research are examples of centrally managed retail chains, with standardized retail operations and franchising system. The strategic and operative decision-making concerning the chain are done at the company headquarters level. This kind of information could not be obtained by interviewing store-level personnel. Therefore it was decided that the persons for the case interviews should be selected among those decision-makers who can inform about the long-term strategic planning and decision-making and who can provide information about the operational characteristics of the retail format concerned. The final decisions concerning selection of the interviewees was made at the data collection stage of the study (section 4.3.2.).

4.2.2. Interview themes

The use of semi-structured personal interviews as a data collection method for the cases means that instead of specifying the questions and presenting them in a questionnaire (as in the structured interviews) only the main themes, topics and issues to be discussed in the interviews are decided in advance (section 4.3.2.). The interview strategy applied in this study has similarities with the semi-structured interviews, thematic interviews and with interviews with an open-ended nature (e.g. Ackroyd & Hughes 1981: 71–73; Smith 1995: 64–68; Saunders et al. 1997: 212; Hirsjärvi & Hurme 1993: 36–37; Yin 1991: 89). The interview themes used in the case interviews are derived from the conceptual domain: they are based on the elements and relations of the dynamic reciprocal interaction model (section 3.4.) and are related to the levels and units of analysis selected for the empirical research (section 4.2.1.).

According to the model retail change is produced by the dynamic reciprocal interaction between the retail format, managerial behaviour and context. The core concept and unit of analysis in the empirical research is a retail format: each case is a description of the evolution and adaptation of a retail format in a particular context. It is assumed in this study that retail

change can be understood by examining the changes in the three elements both at the institutional and operational level. Another key assumption is that changes in a retail format are produced by the strategic and operative actions by retail decision-makers made in and influenced by the context and the changes in it. Both the long-term institutional changes and the short-term operational changes should be covered in the interviews.

Not all assumptions emerging from the dynamic reciprocal interaction model are examined empirically in this exploratory study. Therefore when selecting and formulating the relevant interview themes, the dynamic complexity of the elements, relations and the levels of analysis were reduced into a small number of general themes. The following five general interview themes were selected for the case interviews:

1. Retail format at the time of introduction.
2. Institutional changes and adaptation.
3. Operational changes and adaptation.
4. Context at the time of introduction.
5. Changes in the institutional and operational context.

The first theme, "retail format at the time of introduction", focuses on exploring the characteristics of the format at the earliest stage of the evolution of the store. The second and the third themes are related to the first type of relations of the model (the connections between the three elements at the same level of abstraction (section 3.4.2.)). The second theme, "institutional changes and adaptation" focuses on the main long-term institutional changes and on the strategic managerial behaviour related to these changes. This theme covers issues like the main stages in the evolution of the stores, and the introduction and timing of the innovations and incremental improvement to the stores. Under this theme also the various changes in the retail format are identified. The third theme, "operational changes and adaptation" focuses on exploring retail change phenomenon at the operational level. The main focus is on the rapid short-term operational changes and on retailers actions related to the control and management of these changes. Also the various aspects of operational dynamics are explored and the introduction of innovations and incremental improvements to the retail format are discussed.

The fourth and fifth themes deal with the context element. The fourth theme, "context at the time of introduction" focuses on identifying the main contextual characteristics prevailing at the time of introduction of the format in the retail system. In this connection also for instance the prevailing trends and processes and the various contextual factors favouring the introduction of the format are examined. The fifth theme, "changes in the institutional and operational context", tracks the main changes in the various aspects of context during the evolution of the stores. Also the effects of these changes on the evolution of the store are discussed.

The connections between the different levels and units of analysis presented earlier in this study (section 4.2.1.) and the five general interview themes are shown in Table 8.

Table 8. Levels and units of analysis, and the corresponding general interview themes, concerning the retail format, managerial behaviour and context elements in the empirical research.

LEVEL OF ANALYSIS	UNIT OF ANALYSIS		
	RETAIL FORMAT	MANAGERIAL BEHAVIOUR	CONTEXT
INSTITUTIONAL LEVEL	1. Retail format at the time of introduction. 2. Institutional changes and adaptation.	2. Institutional changes and adaptation.	4. Context at the time of introduction. 5. Changes in the institutional and operational context.
OPERATIONAL LEVEL	1. Retail format at the time of introduction. 3. Operational changes and adaptation.	3. Operational changes and adaptation.	4. Context at the time of introduction. 5. Changes in the institutional and operational context.

In addition to the general interview themes a large number of more specific themes were formed. Examples of these themes are presented in Appendix 1. The specific themes were intended to be as a practical checklist of those issues and topics which should be raised and discussed (if relevant) in the interviews under each general theme. The specific themes were also used when formulating and asking probing questions focusing on some specific important issues emerging from the interviews (e.g. Saunders et al. 1997: 226–227). It must be noted that because of the interrelatedness of the issues to be examined (e.g. the institutional and operational changes and adaptation) some of the specific themes were also overlapping and thus related to several general themes.

Because of the nature and complexity of the research problem it is not possible to approach the assumptions of the model directly with pre-determined measures, indicators or with direct detailed research questions. For instance changes at the system level (the third type of relation of the model) are examined from the viewpoint of the institutional and operational dynamics (section 4.2.1., Table 7). Also the effects between the two levels of analysis are not raised in the interviews as separate general themes but dealt with indirectly under the themes of "institutional changes and adaptation" and "operational changes and adaptation".

The interview themes related to the changes in the retail format and the context are relatively easy operationalize and approach with direct questions. As it is assumed in the model that the institutional and operational changes are manifestations of managerial behaviour made in a particular context, the changes in the managerial behaviour element cannot be studied by isolating them from the actual changes in the retail format (either at the institutional or operational level). For this reason in the empirical research the managerial behaviour is examined in relation to both the institutional and operational changes and adaptation. In the empirical research the managerial behaviour element refers to the actual actions and decisions made during the course of the evolution of the retail format. Thus it is related to issues like the introduction of incremental improvements and innovations in order to differentiate from competitors, or the expansion of the store network in order to achieve the economies of scale and replication.

4.2.3. Methods of analysis

In this study the aim of the case research is to describe the evolution and adaptation of a retail format in a particular context. This is done in order to examine and illustrate how the interaction between the three elements both at the institutional and operational level produces retail change. The main analytical method used in the case research is a descriptive analysis. In general a description refers to making complicated things understandable by reducing them to their component parts (Bernard 1988, ref. Miles & Huberman 1994: 90). Data reduction is one of the key activities in the qualitative data analysis and in the whole empirical research process. Data reduction can be viewed as an interactive process for

selecting, focusing, simplifying and organizing the data in order to describe the phenomenon and to draw conclusions about the data collected (e.g. Miles & Huberman 1994: 10–12; Miles 1985: 122–124).

The data reduction is carried out throughout the case research process. In the case study data reduction occurs in particular in two distinct stages: in the within-case analysis stage and in the cross-case analysis stage. The choices concerning both the data reduction and the particular methods used in the within-case and the cross-case analysis are guided first of all by theoretical considerations, namely the assumptions put forward in the reciprocal interaction model, but also by the choices made earlier concerning the case study design (e.g. embedded design) and the interview themes. For the above reasons the general analytical strategy followed in the empirical research can be referred to here as a strategy relying on theoretical propositions (i.e. the assumptions of the reciprocal interaction model) (Yin 1991: 106–107).

Within-case analysis

The general aim of the within-case analysis is to identify and describe the changes in the three elements at the two levels of analysis. The specific aim is to describe the stages of evolution and adaptation of a given retail format. Miles (1985: 118) has pointed out that a central difficulty in the use of qualitative data is that the methods of analysis are not well-formulated. Qualitative data analysis involves activities like intertwining of analysis and data collection, formulating classes of phenomena, identifying themes and provisional testing of hypothesis (Sieber 1976, ref. Miles 1985: 126–127).

A typical method used in the within-case analysis is pattern matching (Yin 1991: 109–113; Eisenhardt 1989: 539–541; Miles & Huberman 1994: 245–246). According to Yin (1991: 109) pattern matching, one of the so-called dominant modes of analysis for case research, is an analytical logic, which means that an empirically based pattern is compared with a predicted pattern or several alternative predictions. In this study the pattern matching is primarily used to link the data (in particular the patterns emerging from the data) to the

assumptions of the interaction model. Thus the patterns to be identified within the data are related to the changes in the three elements (retail format, managerial behaviour and context), and to the overall retail institutional and operational dynamics.

In cases with embedded design, the within-case analysis is also conducted at the level of the embedded units (see Yin 1991: 120–121; the so-called lesser modes of analysis). In this study the analysis of the embedded units refers to the analysis of the elements of the model, and particularly to the two interacting subsystems formed by these elements (section 4.2.1.). The analysis is done at the institutional and operational levels. From the case description viewpoint this means that both the institutional and operational issues should be covered in the case description. This involves in particular the identification and description of the institutional and operational changes, which according to the model are assumed to be produced by the reciprocal changes in the three elements. The descriptive analysis of the changes both at the institutional and operational levels provides a basis for the understanding of the interaction between the two levels.

The outcome of the within-case analysis is an organized, chronological description of the evolution and adaptation of a retail format in a given context. The dominant mode of analysis (i.e. pattern matching) is used when identifying and describing the patterns (i.e. the dynamic outputs like the various changes, processes and the stages of the evolution and adaptation of a retail format and other such dynamic issues) that emerge from the case. The lesser mode of analysis (i.e. the analysis of the embedded units) is used to guide the aforementioned identification and description to cover both the long-term institutional (institutional level) and the short-term operational (operational level) changes.

Cross-case analysis

In the cross-case analysis stage of the empirical research the cases and the patterns emerged from them, are compared to each other in order to find out the possible similarities and differences between the cases (e.g. Eisenhardt 1989: 540–541; Miles & Huberman 1994: 254). The cross-case analysis is conducted in order to identify the similarities and differences

between the two cases concerning patterns emerged from them. Like the within-case analysis, also the cross-case analysis involves a substantial data reduction. It must be noted that although a cross-case analysis is included in the case study design of this study, any explicit comparisons of the retail systems or retail institutional structures are out of the scope of this empirical research.

The outcome of the cross-case analysis is a summarized discussion of the key empirical findings from the viewpoint of the similarities and differences observed in the evolution and adaptation of the two retail formats (section 4.6.). The cross-case analysis acts also as a transit stage which facilitates the move from the substantive domain to the conceptual domain. This is because of the data reduction involved: by reducing the complexities of the retail change phenomenon into a set of key dynamic issues (e.g. processes and other dynamic outputs) the cross-case analysis provides empirically grounded building blocks for the modelling of the phenomenon.

4.2.4. Structure of the cases

Each case can be regarded as an individual description of the evolution and adaptation of a retail format in its natural contextual setting. Although for instance similar methods of analysis are applied in both cases, the two case descriptions cannot be forced to follow a completely uniform internal structure. The general structure of the cases should however match each other as well as possible due to the multiple-case design applied. It was therefore decided that both cases are constructed so that they both have a similar chronological structure. This type of structure, (as well as linear-analytic, comparative, and unsequenced structures), can be used to compose descriptive case studies having either single- or multiple-case designs (see Yin 1991: 137–141). In this study the chronological structure is especially applicable because of the dynamic nature of the phenomenon examined. As retail change occurs over a long period of time, it is important to maintain the natural order of the events, in order to identify for instance the major changes and the various processes involved.

Besides the chronological structure both cases also have the following three similarities regarding how they are reported in this study. First, each case begins with an introductory section. It comprises of a presentation of the key facts of the company, a description of the main characteristics and the most dominant features of the retail system concerned, and an overview and characterization of the stages of the chronological description. Second, most part of each case is devoted to the descriptive analysis which follows the sequence of the early, middle and late stages of a case history (see Yin 1991: 139). Third, each case ends with a closing section in which the key empirical findings (like the patterns emerged) are presented and discussed in a summarized form.

4.3. Data collection and the field research

Bonoma (1985: 206) has maintained that the goal of data collection in case research is understanding what is achieved by the means of description, typology and theory development and limited theory testing. In this study the data collection stage of the empirical research aims to provide data and evidence for describing the retail change phenomenon and for understanding the dynamic interaction which produces it. Next the types of data used in the case descriptions are presented and the implementation of the data collection and interviews is described.

4.3.1. Primary and secondary data

In order to improve the construct validity of the case research it was decided to use multiple sources of evidence for the descriptive analysis (see Yin 1991: 40–41). Thus both primary and secondary data were used in the case descriptions. In this study these two types of data are regarded as complementary to each other (e.g. Stewart 1990: 12–13). The primary data used in the cases are qualitative and obtained by conducting a series of personal semi-structured interviews in two case companies. Important additional primary information for the cases was unpublished company documentations provided by some interviewees. Also the observations and field notes made and the personal impressions got when visiting R-Kiosks and Seven-Eleven Japan stores as a customer both prior and during the field research

stage of this study proved a valuable means of obtaining rich primary data for the case descriptions. In Finland the different types of R-Kiosks were also visited together with one of the interviewees.

Also secondary data were collected and used in the case descriptions. The main sources for this data were the existing retail literature, studies and articles related to the Finnish and Japanese retail systems and the retail formats examined. Important sources were also annual reports, books of company history and other published company documentation. Also some quantitative data in the form of retail statistics was used in the description of the retail structures of the retail systems concerned. A list covering a variety of basic background information was prepared to guide the data collection (Appendix 2). It was later found however that not all issues and minor details listed were highly important or relevant from the viewpoint of the case description.

4.3.2. Implementation of the data collection and the interviews

The choices concerning the instrumentation of a qualitative research, for instance the particular data collection methods and procedures applied, depend on the nature and type of research and the manageability of data collection (Miles & Huberman 1994: 35–36). Usually only little prior instrumentation is needed in exploratory and descriptive type of studies (Miles & Huberman 1994: 34–38). Case studies with a multiple-case design require however some standardization of instrumentation in order to being able to conduct a cross-case analysis (Miles & Huberman 1994: 35). For this reason similar data collection and interview methods were used in both cases. Also, as was shown earlier, both cases have similarities regarding their general structure (section 4.2.4.).

The data collection and field research stage began with establishing the initial contacts with the company representatives. From the data collection viewpoint the most critical issue was the degree of access given by the company to an outside researcher to conduct a case study with personal interviews. When the permission was received from the company, the selection of the suitable interviewees for the personal interviews was done in cooperation with the

company representatives. It was decided that the identity of the interviewees (name and position) will not be concealed. It was decided however that due to the nature of the information obtained from the personal interview and especially the way how the information was intended to be reported in the case description (e.g. no direct quotes are used), the identity of the interviewees does not appear in the text.

The personal interviews for the R-Kiosk case were done in June and July 2001 and for the Seven-Eleven Japan case in October 2001. The interviewees were informed about the themes and topics to be raised in the interview prior to the appointment. The interviews were not recorded. Notes were written during every interview session. After the interview the handwritten notes were rewritten with a word processor. An average duration of an interview was two hours.

The R-Kiosk case was regarded as a pilot case for the empirical research and thus the field research stage commenced with that company. The experiences gained from these interviews were taken into account when carrying out the second case. The interview process was guided by both the issues derived from the assumptions of the model and by the specific data needs for the case descriptions.

The use of semi-structured personal interviews gives a great deal of freedom and flexibility to make the necessary fine-tuning and adjustments during the course of the interviews. Thus it was possible for instance to ask more detailed questions or to focus on some new issues and topics emerging from the discussions (e.g. Saunders et al. 1997: 218). The order of the themes to be raised in the interviews were not determined in advance. This was because the final operationalization of the themes (i.e. what particular questions to ask, and how to formulate the questions) took place in the actual interview situation. Because an interview is an interactive situation between the interviewer and the interviewee in the interview situation both of them take part to the operationalization of the themes (Hirsjärvi & Hurme 1993: 41–43).

A funnelling technique was used in the course of the interview (Sekaran 1992: 195; Kahn & Cannell 1957: 158). The funnelling technique is an especially suitable interview tactic for personal interviews. It means that an interview begins with raising broad general themes and questions and then the interview moves towards more specific themes. When it was possible and the natural flow of the discussion allowed it, the themes and questions were presented in an order which followed chronologically the evolution of the retail format. The same list of interview themes provided a basis for all interviews (Appendix 1). It was however not intended that all themes would be relevant and discussed in every interview.

After conducting the interviews, some of the interviewees were contacted by e-mail in order to recheck some information and details. When the complete first version of the case description (sections 4.4. and 4.5.) was written in English, a photocopy of the text was submitted to the interviewees. They were given the possibility to comment on it and to give feedback about the case description. The main reason for using this tactic was to improve the overall quality of the cases and especially to strengthen the validity of the case research (Yin 1991: 143–146; Miles & Huberman 1994: 275–277; Miles 1985: 128). Another reason for this tactic was to identify and to correct any possible misunderstandings, factual errors and inconsistencies in the case descriptions which could be easily noticed by the company representatives who are familiar with the subject.

4.4. Case 1. Evolution and adaptation of R-Kiosks in Finland

4.4.1. Introduction and background

R-Kiosk chain and the Rautakirja Group

R-Kiosk is a leading Finnish retail chain operating in the kiosk trade. The chain is a part of the Kiosk Division of the *Rautakirja Group*. According to the company's own definition *R-Kiosk* is a nationwide, centrally administered and profitable chain of outlets offering consumers entertainment, excitement and pleasure alongside basic everyday consumer items and services from morning until late evening. In July 2001 there were 717 *R-Kiosks* in

Finland. About one third of these outlets was operated by R-Kiosk franchise holders. There are also 202 R-Kiosks in Estonia, where the chain is operated by a subsidiary of the Rautakirja Group. In 2000 the turnover of the R-Kiosk chain in Finland was 1839 million FIM. In May 2001 the R-Kiosk chain employed 2451 persons in Finland. (RKA 2000: 6–7; RKD 2001.)

The parent company, Rautakirja Group, was founded in 1910 when *Rautatiekirjakauppa Osakeyhtiö* began to operate in the kiosk trade. Today the Rautakirja Group is a large trade and service company which has business operations in the following fields of business: newspaper and magazine wholesale, kiosk trade, bookstore trade, movie theatre and restaurant business and e-business. These trading sectors are organized and administered as divisions. In 2000 the turnover of the Rautakirja Group was 6726 million FIM. The average number of personnel employed was 5534. The Rautakirja Group has been a part of the *SanomaWSOY Group* since 1999. (RKA 2000.)

Kiosk trade and the Finnish retail system

In the Finnish retail statistics the R-Kiosk chain's retail outlets fall into the category of kiosks, which belong to the broader retail category concerning non-specialized retail sales of food stuffs, drinks and tobacco (Tilastokeskus 1993: 148). In 1999 the estimated number of these kinds of kiosks in Finland was over 2500 (RKA 1999: 7). This number does not include however specialized kiosks such as ice-cream, newspaper and flower kiosks. The Finnish kiosk trade has been highly regulated (e.g. merchandise, maximum floor space). The earliest legislation from the 1940s was abolished by a major legislative change in 1969. Since then the legislative environment of both kiosk and retail trade has been characterized by gradual deregulation in the 1990s and most recently in 2000 (Finnish law 1946, 1969, 1997, 2000; Kastemaa 1985: 80–83, 85–86; Home 1977: 103–108, 1989b: 45; LTT 1982: 4–10; Saarinen 1996: 3–7; Kajalo 2001; Marjanen & Saarinen 2000: 7).

In the 1990s there have been three parallel and competing streams of development related to convenience store retailing in Finland. The first of them is the development described in this

study with the R-Kiosk chain: the transformation of the traditional window-counter and indoor/walk-in kiosks into chain-administered convenience stores with expanded product and service offerings. A clear manifestation of this development is that the role of kiosk trade in the grocery trade has been increasing (e.g. LTT 1997: 7). Another example of this kind of retail transformation is the recent concept development of "10-Kioski" chain, another Finnish kiosk chain. The second stream of development is the development which has occurred in the field of petrol and service stations. Small shops selling basic foodstuffs, fast food items and a variety of other products have been opened in service stations by international and domestic oil companies, like Esso, Shell and Neste, especially in the 1990s (e.g. Marjanen & Saarinen 2000: 6–7). This development and the close linkage between convenience stores and service stations has occurred earlier for instance in the US in the 1960s–1980s, and in Denmark and Sweden in the 1970s–1980s (e.g. Vastine 1991: 28; Kotler 1988: 167; Kirby 1986: 8). The third stream of development is related to the emerging interest shown by the established Finnish retail companies for business operations in the field of convenience store retailing (e.g. the renewals of the existing chain concepts, and the introduction of a new small neighbourhood shop format for quick and convenient shopping of foodstuffs and ready-made foods) (e.g. Kauppalehti 2000; Marjanen & Saarinen 2000: 7; Pirkka 2000). It must be noted that at present there are not any foreign convenience store chains like Seven-Eleven operating in the Finnish market.

A period of rationalization of the Finnish retail system began in the late 1960s when the total number of retail outlets started to decline (Home 1977: 122). Among the underlying factors affecting the structural change in the Finnish retail system have been related to the general processes such as industrialization, urban development and economic concentration which together with the closely related changes e.g. in the demographic factors and in the standard of living have had an combined effect on retail trade (Home 1977: 123–129, 1989a: 254). Historically the central internal features of the Finnish retail system have been on the one hand the strong private ownership in retailing (the retailer-owned retail outlets) and on the other hand the cooperative ownership (the customer-owned retail outlets) (e.g. Home 1977: 15–18, 1989b: 25–30).

Among the key general characteristics of the Finnish retail system, especially from the viewpoint of the grocery trade, have been for instance the high degree of concentration, vertical integration and centrally administered retail chains (e.g. Mäkinen 1982). The Finnish retail and distribution system has been dominated by four large trading groups (e.g. Henell 1963: 25–35; Peltoniemi 1993: 109–112). This oligopolistic competitive setting has manifested itself for instance in the rather similar strategic actions made by the large retailers (e.g. Lehti 1990: 173–177). In the 1980s and 1990s the prevailing trends in retailing have been e.g. the increasing number of large-scale retail units like out-of-town supermarkets and shopping centres, and the decreasing number of small retail outlets (e.g. Santasalo & Kontio 1995: 35–45; LTT 1997: 6–11; Huuhka & Rantahalvari 1992: 5–8).

Stages of evolution and adaptation

In the following chronological description the long history of the R-Kiosk chain covering over 90 years has been divided into three main periods or stages of evolution and adaptation. The description focuses on the selected illustrative episodes, events and issues related to the institutional and operational changes and adaptation. The main emphasis in the case description is on the changes that occurred during the 1980s and the 1990s when the process of retail transformation clearly accelerated. The key years and events referred to in the text are presented in Appendix 3.

The first stage (1910s–1940s) presents the origin and the earliest years of the company and describes the historical period when the kiosk trade emerged in Finland and the kiosk network was established. The second stage (1950s–1980s) begins in the decade when the existing kiosks started to operate under the same brand name: R-Kiosk. This stage covers many important changes which can be regarded as preludes for the more elementary changes in the 1990s. The third stage (1990s–2001) describes the managed and planned process during which R-Kiosks have been transformed into convenience stores through four distinct parallel waves.

The early years of the company have been well-documented in two books by Kastemaa (1970, 1985) about the history of the case company. The description of the earliest years of the company (until the early 1980s) (section 4.4.2. and the beginning of section 4.4.3.) relies predominantly on them. The later part of the case description (from the early 1980s onwards) is based on the primary data obtained from personal interviews and information derived from several published and unpublished sources.

4.4.2. 1910s–1940s: Establishing the foundations for growth

The company, *Rautatiekirjakauppa Osakeyhtiö*, was founded in 1910. The agreement signed with the Finnish State Railways gave the new company exclusive rights to distribute and sell newspapers and literature at Finnish railway stations. In the first operating year 1911, 30 sales outlets were opened at railway stations. Very soon the sales of newspapers and literature was started also on trains, where the personal selling was done by “train boys” and in the largest towns on movable bookstalls and wagons in the streets. (Kastemaa 1970: 16–48, 54–57, 1985: 9–17; RKW 2001; Rautakirjalehti 1985.)

The network of kiosks grew rapidly so that in the beginning of the 1920s the number of kiosks exceeded 100. Due to the growing popularity of mass transportation the train selling flourished in the 1920s and new sales outlets were opened not only in railway stations but also in other high customer flow locations. More regional offices were established to deal with the growing sales around the country. The kiosks of that time were typically small free-standing window-counter kiosks located either out-of-doors or where possible inside the railway station buildings. Gradually kiosks grew in size and their design became more elaborate and functional. From the outset kiosks had concentrated on selling newspapers, magazines and literature, and other printed articles like postcards and stationary items. Soon also other popular lines of products like lottery tickets, films and inexpensive musical recordings were introduced as sales items. The first more significant widening of product assortment took place in the early 1930s (1933) when the sales of sweets and tobacco in kiosks was started. The sales of these new products was organized under its own sales

department in the company headquarters. (Kasternaa 1970: 66–87, 1985: 20–27, 59–61; RKW 2001; Rautakirjalehti 1985.)

World War II had an immense effect on every aspect of society and economic activities and for the kiosk trade the years during and after the war meant a general shortage of goods due to war-related restrictions. Soon however new plans for growth were implemented. Thus the second half of the 1940s is mainly characterized by the expansion of the kiosk network to new locations, designing and building of new kiosks, and the renovation of the existing ones. The introduction of pool betting for the national football league in 1940 was one single event which had a far-reaching significance for the kiosk trade: kiosks owned by the company have since operated as pool agencies and the result of that stream of development can be seen in the strong emphasis given today on the various gaming products in R-Kiosks. (Kasternaa 1970: 90–108, 1985: 28–31; RKW 2001; Rautakirjalehti 1985.)

4.4.3. 1950s–1980s: R-Kiosks - Concept formation and testing

During the four decades of this period many important changes took place in the company and in the surrounding retail environment. R-Kiosk became not only an established and a well-known brand but also a rapidly expanding kiosk chain offering a widening mix of products and services. The company adopted international business practices by introducing a franchising system and gained experience of business operations in the convenience store sector. The development of the supporting IT-systems needed for running a nationwide kiosk chain began.

Creating the R-Kiosk brand and expanding the kiosk network

The 1950s was the decade of growth and economic revival for the company which for instance further developed the regional office system in order to cope with the expanding kiosk network. The most important change from the marketing point of view took place in 1958 when the new company logo (R) was taken into use and the first kiosk started to operate under the name R-Kiosk. The new logo gradually became a familiar symbol and it

provided a basis for standardized and nationwide marketing activities which began more intensively on a larger scale in the 1970s. In 1958 the company also opened its first café (R-Cafés) which sold also typical kiosk products. In 1970 there was a total of 13 R-Cafés which were mainly located at railway and bus stations and which catered to travellers. (Kastemaa 1970: 118, 131–139, 1985: 77–78, 86–87, 95–97; RKW 2001; Rautakirjalehti 1985.)

The kiosk network grew rapidly. In 1950 the company had a total of 200 sales outlets. Between 1960 and 1969 the number of sales outlets grew from 293 to 464. The renovations of the existing kiosks continued in the beginning of the 1950s and the new kiosk models designed at that time were in use for a long time up to the 1960s. A majority of the sales outlets were still traditional window-counter type of kiosks located out-of-doors. The new kiosks however reflected the modern architectural styles of the time. R-Kiosks were now often located as part of building in old converted business premises, and for instance in the newly built suburban shopping centres where the company could better reach and serve the growing number of people moving from the rural areas to towns. At the same time the connection between mass transportation and the kiosk trade was not as important as earlier. Due to the decreasing passenger traffic in trains and buses it was now profitable to have kiosks only at the largest and busiest railway and bus stations. (Kastemaa 1970: 139–141, 163, 1985: 83–84.)

Widening the product and service mix

The legislation enacted in 1969 gave unrestricted opening hours for the kiosk trade but still determined in detail what products were allowed to be sold in kiosks. Because the legislation and the various hygienic regulations forbade the sales of foodstuffs in kiosks, the widening of the product mix took place in the traditionally strong product assortments (e.g. magazines, candy and tobacco etc.) and in the non-food product assortments. The new possibilities of mass media and television commercials were utilized in making the R-Kiosk chain and the individual hit-products widely known. In the end of the 1970s the company ran for instance marketing campaigns in which R-Kiosk were referred to as “small department stores”. Especially in the 1980s there were continuous experiments to find demand for new products

sold in R-Kiosks. These kind of tests were for instance the sales of musical recordings, flowers, canned food and inexpensive jewellery. In the end of the 1970s the company wanted to further widen the merchandise assortments by starting the sales of foodstuffs. The legislation however forbade the first experimental sales of milk and sausages. In the beginning of the 1980s the company was however already preparing for the deregulation of legislation on selling food stuffs. It took however a long time until the sales of milk and dairy products (1994) and other foodstuffs (1997) were properly started in R-Kiosks. (e.g. Kastemaa 1985: 80–89, 95–97; Finnish law 1969.)

In the beginning of the 1980s the popularity of VCRs and the demand for video movies was growing. The parent company acquired the rights to distribute and rent video movies and the rental of video movies was started in R-Kiosks in 1982 (Kastemaa 1985: 152–159; RKKW 2001). In the following year this new service was introduced on a much larger scale and a special "Vip-Video Club" was introduced for customers. The new service rapidly expanded. In 1985 it was found already in 500 R-Kiosks (Kastemaa 1985: 156). The introduction of video rental can be regarded as an important milestone in the 1980s because this new service together with the general widening of merchandise assortment brought about the increasing need to develop the indoor/walk-in type of kiosks. So far R-Kiosks had been mostly traditional window-counter type of outlets located either out-of-doors in a separate building or as part of a building. According to the legislation there had to be a glass wall (a window) between the customer and the actual selling space with merchandises and the salesperson. In the walk-in area, it was only permitted to have the samples of magazines and the covers of the rental video cassettes. At first just a small space or a corner of the walk-in area was reserved for these samples. Little by little other sales items like snacks were placed in the walk-in area. The walk-in type of kiosks were found to be convenient kiosk concept for customers. Starting from the middle of the 1980s the number of this kiosk type grew rapidly so that in 1991 already approximately 45 percent of the total 828 R-Kiosks were indoor/walk-in type of kiosks (RKKD 2001).

Introducing the franchising system

In April 1987 the board of the parent company made decisions concerning changes in the organization structure of the Rautakirja Group (Rautakirjalehti 1987a). The new organization was now based on five lines of businesses or groups. The reform meant especially demanding challenges for the group in charge of the kiosk trade and the catering operations because of the special development projects set for it. The group was now responsible for starting franchising operations in the kiosk trade, planning and building a new retail format "R-convenience store" and creating a cash register system for the sales outlets. Behind these decisions was the company's need to prepare itself for deregulation in the future and to strengthen its competitive position.

These decisions were done at the time when the kiosk trade was not generating profits. The introduction of the franchising system together with other development projects were seen as a way to improve profitability. The number of sales outlets had started slowly to decline after the peak of 840 R-Kiosks in 1986. The company wanted to maintain the nationwide coverage of the chain at the time when there were also a shortage of workforce. Especially in the beginning the franchising system was regarded as a means to get the kiosk personnel more involved in the business and to change the non-profitable outlets into more profitable ones. The profitability of the company's kiosk trade improved in the beginning of the 1990s.

The number of R-Kiosks operated by franchise holders rose in the 1990s at the same time when the company rapidly implemented the most important changes concerning the chain. Franchising has not however become the dominant operational business strategy in the company's kiosk trade operations because at present only one third of all R-Kiosks are operated by franchisees. From the consumer viewpoint there should not be noticeable differences between the company-run and franchised outlets due to the highly standardized and centrally administered chain concept. The franchised R-Kiosks can however at some degree carry items outside the chain's uniform product assortments. There may also be less depth in the merchandise assortments due to for instance the small size of the kiosk and the franchisee's own investments in the value of stock.

Experiments with convenience store concepts

The background for the company's experiments with the convenience store business can be found in the development which started in the mid 1980s. At that time there was an emerging need to increase the selling space of the outlets, to accommodate the growing merchandise assortments and to develop the walk-in retail outlets. The company's plans and decisions to develop "R-convenience store" were quickly put into practice. The creation of the new convenience store format was a parallel development with the development of the R-Kiosk chain which still formed the core of the company's business operations in this sector. The first outlet of the new type was opened under the name of *Super R* in Tampere in November 1987 (Rautakirjalehti 1987b). It was a self-service walk-in type of retail store with a selling space of about 100 m². It carried, in addition to the typical merchandise assortments sold in R-Kiosks, also a wide selection of foodstuffs and a variety of household goods. There was also a small self-service café in the store.

The Super R did not become a long-lived and widespread concept. The Super R chain consisted of only four stores. Soon the company shifted its efforts from the development of the Super R chain to the introduction of *Circle K* convenience stores in Finland. The company had signed a three year licence agreement with Circle K (UK) Ltd. which together with its US parent company owned the licence rights for Circle K convenience store operations in Europe (e.g. Rautakirjalehti 1989a). The initiative for the cooperation had come from the Rautakirja Group. With this new cooperation and business model the company wanted among other things to prepare itself for the possible changes in the legislation, for the process of European integration and for preventing competition. The cooperation with the Circle K (UK) Ltd. started at full speed in 1989 when the first Circle K store in Finland was opened. It was also the first Circle K store in Europe outside the UK. The first Finnish Circle K was opened in Tampere in the earlier location of the Super R store (e.g. Rautakirjalehti 1989b). Soon the new store concept replaced also the other Super R stores. A total of 9 Circle K stores were opened in Finland. Most of the stores were located in Helsinki and in other larger cities.

Every aspect of the Circle K store concept was strictly controlled by the licence agreement which covered e.g. the initial training of the personnel in the UK. A particular characteristic of the concept worth mentioning here was the shelving system and category management, which from the consumer viewpoint differed from the way merchandise was displayed in ordinary retail stores in Finland. As the Circle K stores were purely foodstuff stores they were subject to the same opening times and regulations as other retail stores. Compared to the earlier Super R stores the Circle K convenience stores had a better selection of food products. From the Circle K stores customers could also buy products and services which could be found in R-Kiosks (e.g. magazines, video rental, lottery).

The time was not however right for the introduction of this kind of pure convenience store format in Finland. The legislation still was too tight to allow the free sales of foodstuffs from kiosks and there was not sufficient customer demand for the new format. As the Circle K stores could not make enough profit, the licence agreement was not renewed after the first licence period. The developments related to "R-convenience store" show however that the company was clearly ahead of its time with the two convenience store concepts. The developments show also how the know-how and the inspiration for the concept development typically originates from abroad. This comes out also from the fact that the managing director of the company at the time (Mr. Raimo Hertto) had also been working in the US where he had become familiar with the convenience store business. The ideas put into practice in the end of 1980s and the experiences gained from both the Super R and Circle K stores have also clearly affected the process of concept development in the 1990s.

Development of IT-systems

In 1957 the company started to use punched card machines for the various calculations and reporting tasks in the company headquarters (Kastemaa 1970: 181–182; Rautakirjalehti 1983). The beginning of the computer era and the development of IT-systems started eleven years later after the first computer was taken into use. The new computer replaced the old centrally controlled punched card system. In the beginning of 1980 the company became a large-scale user of computer applications by acquiring new computer equipment and

renewing the systems. During the 1980s centralized IT-systems at the level of the Rautakirja Group were decentralized to the business units and profit centres so that each of them had its own IT applications. The planning and development of an electronic cash register system were started together with the development of the R-convenience stores and franchising operations in the end of 1980s.

4.4.4. 1990s–2001: Managed process towards convenience stores

In the 1990s the R-Kiosk chain faced the biggest and the most rapid institutional and operational changes in its history. This managed and planned process of retail format change was guided by the company's proactive decision-making and the need for preparing the chain for future changes. Internationalization of the R-Kiosk chain took place in 1993 when the first R-Kiosk was opened in Estonia. In Finland the process of transformation of R-Kiosks into convenience stores happened through four waves related to concept development. At the institutional level this process meant that R-Kiosks were changed from the window-counter kiosks to convenience stores. At the operational level it can be seen e.g. in the widening of the product mix and in the introduction of new services and retail technologies in R-Kiosks. The management of the chain was improved by introducing the team management system, and above all by continuously developing the supporting IT-systems.

Four waves of transformation

During the 1990s there existed simultaneously four distinct types of R-Kiosks: the traditional window-counter kiosks, the indoor/walk-in type of kiosks introduced in the mid 1980s, development outlets introduced in 1992, and minimarkets (i.e. convenience stores) introduced in 1997 (RKD 2001). The aim of the process was to convert first the existing indoor/walk-in R-Kiosks into development units and then later into minimarkets. The rate of change was very fast. The explicit concept building together with the changes in the company's organization brought about a great number of incremental changes to the original R-Kiosk format and to the way it operated.

1. Window-counter kiosks

Window-counter kiosks were the dominant form of kiosks until the mid 1980s when the indoor/walk-in kiosks were introduced. Their number had been declining throughout the 1980s but especially in the 1990s, when a growing number of existing kiosks had been converted into indoor/walk-in kiosks and development units. The decline has been dramatic. Still in 1991 about 55 percent of R-Kiosks were window-counter kiosks, but by 2000 their percentage of all outlets was only 3. During this period the total number of outlets in the R-Kiosk chain declined from 828 to 722. Today window-counter kiosks remain only in operation in such locations where they are more suitable and profitable than any other types of R-Kiosks.

2. Indoor/walk-in kiosks

In the very first indoor/walk-in kiosks there was a glass wall (a window) which separated the customer from the merchandise and the salesperson. First kiosks had only a corner devoted to rental video cassettes and magazines. According to the legislation only the covers of the videos and some samples of the magazines could be on display in the customer area. The introduction of development units in 1992 was the beginning of a process which meant that also more and more indoor/walk-in outlets were converted into development units and from 1997 onwards into minimarkets. This process was as dramatic as in the first wave of transformation concerning the window-counter kiosks. In 2000 the R-Kiosk chain had 32 indoor/walk-in outlets which accounted for only about 4 percent of all outlets. In 1991 about 45 percent of outlets were indoor/walk-in type. Today these outlets have many similarities with development units and minimarkets but compared for instance to minimarkets, the indoor/walk-in kiosks have a more limited selection of food products. In addition to the typical product assortments of the R-Kiosk chain the indoor/walk-in outlets have services like video rentals, and the sales of warm bakery products. They also sell coffee which can be consumed in the outlet, or bought for take-away.

3. Development units

A development unit is a special type of indoor/walk-in outlet introduced in 1992 and an important step in the company's concept development in the direction of convenience store retail trade. Today development units (this name is used only internally in the company) can be distinguished from the minimarket type of R-Kiosks mainly on the basis of their more limited merchandise assortment and shorter opening times. Soon after the opening of the first 14 development units in 1992, it became the dominant type of R-Kiosk. The process of transformation implemented by the management of the chain was extremely rapid. Only four years later, in 1995, already every second R-Kiosk was a development unit. In 2000 there were 565 development units which accounted for about 78 percent of all R-Kiosks.

It must be noted that the earlier experiments concerning indoor selling made by the R-Kiosk chain had shown that the total sales of an outlet grew when the merchandise was placed in the indoor selling area and a part of the indoor area was reserved for a café. The indoor sales combined with a self-service café service was tested in some outlets because cafés were not subject to the same restrictions as outlets classified as kiosks. Encouraged by these and other positive experiments concerning indoor selling and the earlier indoor/walk-in concept a new wave of the retail transformation process was quickly put in practice in 1992 by the chain management.

At the outset only a very light renewal and redecoration of the selected R-Kiosks was done because there was a need to quickly launch the new concept. For this reason the conversions included mainly the cloning of the best elements of the new concept and using them when renewing more outlets. Around 1994 the company saw however that the new concept had the potential to remain in the market for a long time and the company started to plan and to implement more durable and long-lasting solutions related to for instance the material used in the renovations and to the centralized cooling and air-conditioning systems and equipment. The transformation process was incremental. The introduction of new product lines during the 1990s required also the planning and introduction of new display solutions. For instance from the very beginning in 1992 development units had carried bake-up products.

The rapid retail transformation related to the introduction of the development units and later the minimarkets (in 1997) could not have been possible without a well-managed and planned concept development process applied by the chain management. This process has included both the planning and the actual implementation of the retail format change. In the concept development the company has used for instance a shelving system which consists of standardized modules. By using the modules the store layout with the exact locations of the sales items can be planned in advance. With this kind of solution the company has been able to clearly accelerate the speed of retail format change. Today only eight days are needed for a complete renovation of a R-Kiosk; in the 1980s a similar renovation would have taken about four weeks.

4. Minimarkets (Convenience stores)

Until 1997 the concept development in the R-Kiosk chain focused on the development units. The further development of the indoor selling concept led to the introduction of a new concept of a small retail store in 1997. The new concept, called internally in the company "a minimarket", was actually a convenience store which with its merchandise assortments and services marked the beginning of the fourth wave in the chain's concept development process. The introduction of the new concept meant that the R-Kiosk chain was again evolving from the kiosk sector to the convenience store retailing business and that the chain was positioned in the retail markets closer to existing small retail stores. It must be noted however that the new minimarkets are still subject to the restrictions concerning kiosk trade. The first outlets of the new type operated under the name *R-Minimarket*. Soon however the name was changed and the R-Kiosk name was taken into use in order to avoid the creation of a parallel chain of stores and possible confusion among consumers. In 1997, in the year of introduction, 13 minimarkets were opened. In 2000 there were already 104 minimarkets (14 % of all outlets) (RKD 2001).

Minimarkets are typically open longer hours than other types of R-Kiosks. Minimarkets are indoor/walk-in retail outlets in which the selling counter forms a unit of its own in an open walk-in selling space. Merchandise is placed in the open selling space like in a normal retail

store. Like in development units, products with higher value (e.g. cigarettes, PlayStation games, films etc.) are on display behind the selling counter and the salesperson. The floor space of minimarkets is under 100 m². This space limitation was based on the current legislation (Finnish law 1997).

Minimarkets have a much wider selection of foodstuffs than other R-Kiosks. Typical food products are for instance the various ready-to-eat products, sausages, cheeses etc. All minimarkets are equipped with freezers and freezer shelves. A standard feature is also a cold room for foodstuffs and cold drinks. From the beginning minimarkets sold also coffee and fast food products like hotdogs and pizza slices. There were however not enough markets for the fast food products and the experiment with the sales of fast food lasted only a year. Today the sales of coffee and warm bake-up products forms the basis of the fast food sales in R-Kiosks. Like other R-Kiosks minimarkets offer customers a variety of products and services, ranging from video rentals to the possibility to pay bills or to play slot machine games. Customers can also check for instance lottery results and other game results from a television monitor.

Widening the product mix

Parallel with the intensive concept development there were also many incremental changes in the product mix of the R-Kiosk chain in the 1990s. The changes were the results of an explicit product development process which is closely related to the aforementioned concept development process. More emphasis was also put on the planning and control of the merchandise assortments. In 1992 for instance R-Kiosk's own brand was launched for candy assortments, and later the brand was expanded to cover also other products. The introduction of new products, product groups and services in the 1990s was first related to, the building of the development unit concept, and later from 1997 onwards to the building of the minimarket concept.

The testing and experimenting with new products continued in the 1990s in a more refined and controlled way than earlier. The management of the chain has been continuously

searching for new products and services which do not yet have existing distribution channels but which could be distributed profitably through the chain. The nationwide coverage of the chain has brought about the needed volume for marketing and distributing popular trend and fashion products like toys and collector's cards, as well as for distributing leaflets and brochures of travel agencies and other cooperative partners of the company. The changes in the product mix in the 1990s show that the management of the chain has been actively creating new demand rather than just simply responding to the various needs and wants of its customers. The special roles of the product groups are carefully planned to suit not only to the particular R-Kiosk type but also the common brand image created for the chain.

Examples of new products and product categories introduced in development units around the mid 1990s include milk and dairy products (in 1994), recorded music, pet food, coffee, beer and drinks with low alcoholic content (in 1995). It is important to note that the sales of foodstuffs and beers could not have been possible without the changes in the legislation during the 1990s. A milestone in this sense was the renewal of the legislation which came into force in 1995, as it allowed the sales of drinks with low alcohol content in kiosks and other retail outlets which also sell foodstuffs (Finnish law 1995). The introduction of the minimarket concept in 1997 brought about a much wider and improved selection of foodstuffs. In the end of the 1990s the R-Kiosk concept was further developed by integrating many additional services and new retail technologies. At the same time the product range was widened mainly in the direction of the so-called products of the new economy (e.g. the sales of prepaid telephone cards, and the services provided by mobile phone and internet operators).

Main product groups. The leading idea behind the development of the R-Kiosk concept in the 1990s has been to make it very easy for customers to fulfil both their pleasure shopping and convenience shopping needs in their nearest R-Kiosks. These two elements of the total concept, pleasure and convenience, can be seen both in the product and service mix of R-Kiosks (RKD 2001). The product groups related to pleasure shopping are planned to offer customers pleasure (e.g. candies, beverages and drinks with low alcohol content, snack foods, cigarettes etc.), excitement (e.g. lottery and other gaming products, amusement

games) and entertainment (e.g. magazines and other reading products, video movies, CDs, Playstation games, toys etc.).

For convenience shopping R-Kiosks offer both a selection of basic products and a variety of basic services. The main product groups for convenience shopping include the most popular brands of basic food products (e.g. milk and dairy products, bread, ready-to-made products etc.), technochemical products (e.g. for personal hygiene) and other typical convenience goods. By carrying these product groups R-Kiosks can serve customers in their immediate and most urgent fill-in shopping needs. Important elements from the viewpoint of customer convenience are also the many additional services introduced in R-Kiosk in the 1990s. These include for instance postal, banking, delivery services, internet services, the distribution of catalogues and leaflets, and the sales commissioned products like cinema tickets and tickets for public transportation. It must be noted here however that at present not all of the aforementioned products or services are found in all R-Kiosks.

Gaming products. A major share of the total sales of the R-Kiosk chain results from the sales of products related to pleasure shopping product groups, particularly to the various gaming products. Since the beginning of the national lottery and pools operations in Finland in 1940 the chain has been one of the most frequented and popular places for the general public to play various games organized in Finland by Veikkaus Ltd. Especially the weekly Lotto draw introduced by Veikkaus Ltd. in the beginning of the 1970s is nowadays the most important gaming product played in R-Kiosks. All R-Kiosks are equipped with Veikkaus Ltd.'s IT-system for the online games. Market research shows that for instance during the last three years the most common purpose for a customer to visit R-Kiosk has been related to the playing of lottery and other games.

In the end of 1990 a new process of product and concept development related to the gaming products began. For instance the cooperation with a leading Finnish horse pool organizer further expanded the range of online games available for customers. The parent company of the R-Kiosk chain obtained extra know-how and expertise on the gaming product business by acquiring Veikkausrasti Ltd., a chain of outlets offering professional gaming products and

services. In 2000 there was a short experimental pilot project in which the R-Kiosk concept and the Veikkausrasti concept was combined and both outlets operated under the same roof and under the name of *R-Kiosk - Veikkausrasti*.

In the following year the R-Kiosk chain introduced a new expanded R-Kiosk concept called internally in the company as a "Gaming World R-Kiosk". The new concept with its products and services is particularly targeted to fulfil the needs of the more experienced players of horse pool and other betting games. The outlet based on this concept has a total floor space of about 125 m². In addition to the selling space (under 100 m²) for standard products and services found in R-Kiosks there is also a special section (a separated area) reserved for the players and the gaming products and services. There the players can follow live coverage of horse pool games. Much emphasis has been put on the training of the personnel so that they can give expert advice about the various gaming products to customers. The first R-Kiosk of this type was opened in Helsinki in February 2001. Based on the promising experience gained from the pilot store, the company is considering opening a few more outlets. The process of concept development is ongoing. According to the company there might exist in the future R-Kiosks which have about 50 m²'s "Gaming World" section, and/or "Video World" section in addition to the normal kiosk selling space.

Adding new services

The additional services introduced in R-Kiosks during the second half of the 1990s have been transforming R-Kiosks into multiple service units. These new services include postal and banking services, internet services and delivery services. They have a key role in the further development of the convenience element of the R-Kiosk concept. At present however their importance is still small from the viewpoint of the total turnover of the chain. The product development process related to these services is ongoing and the number of outlets offering some of the new services is little by little increasing.

Postal services. In the 1990s the number of post offices declined in Finland when the Finland Post Corporation (Suomen Posti Oyj) rationalized its operations by closing down many of its

non-profitable outlets. At the same time it began to seek new models of operations and cooperative partners in order to maintain a basic level of postal services. For this reason for instance the kiosk and rural stores could offer, on a commission basis, some services of the Finland Post Co. R-Kiosk introduced postal services in 1996 (RKD 2001; Rautakirjalehti 1996, 1997a). The outlets offering these services are equipped with IT-systems provided by the Finland Post Co. There are also for instance a separate counter for postal services and a storage place for postal parcels. These services have increased the flow of customers to R-Kiosks. They have however also increased the workload of the personnel who must also be familiar with the many documents, rules and procedures related to these services. There were earlier about 20 R-Kiosks with postal services. The number of these outlets has decreased as the company nowadays offers postal services only in those outlets in which they are profitable. At present there are about 10 R-Kiosks with these services.

Banking services. The core of the chain's banking services is provided by ATMs installed in selected outlets of the chain (either in their indoor selling space or out-of-doors in the proximity of the outlet). The first external cash-dispenser, for cash withdrawals, was taken into use in April 1995. Today this service can be found in about 40 outlets. Two years later, in April 1997, these banking related services were further improved when the first ATM for self-service bill-paying was introduced. At present about 20 outlets of the chain can offer this service. A new stage in the development of banking related services for the R-Kiosk concept began in 1999 when the company in cooperation with Leonia Bank launched a pilot project in four outlets of the R-Kiosk chain (RKA 1999). It must be noted that other financial services typically found in R-Kiosks are for instance the distribution of consumer credit applications forms and other similar service products of the chain's cooperative partners.

Internet services. In the end of the 1990s also the R-Kiosk chain began to explore the possibilities to use internet technologies and to combine e-commerce to the R-Kiosk concept. A website was created for the chain to provide customers with basic information (e.g. company facts, product ranges, recruitment possibilities etc.), and to give them a new channel for feedback. In 1999 the chain initiated an experiment which led to the installation

of about 50 in-store internet terminals in selected outlets of the chain (e.g. RKA 1999). With these so-called *Internet Automats* customers can have self-service access to the internet, pay bills or use other online services. In 2000 the development related to e-commerce was further intensified at the level of the Rautakirja Group when a new division (e-business division) was established for the group's online operations (RKA 2000).

In 2001 the chain considered also the installation of the new generation of internet automats, which could allow customers for instance to print out the tickets which they have ordered through an online ticket sales system. These further plans were however dropped and postponed and also the experiment with its existing network of internet automats was terminated. Although some competing retail companies have been experimenting with internet automats there is however not yet a natural high demand for these services in Finland at this moment. In addition, there is not yet a well-established business sector for providing sufficient content for the new e-based retail applications. The experiment clearly illustrates however that the R-Kiosk chain is not only testing the new technologies but also actively tracking down the possibilities to create new demand and to teach its customers to use these new types of services.

Delivery services (Pick-up point services). Since 1996 customers have been able to use R-Kiosk outlets as a pick-up point for mail-order products. The service was launched in cooperation with a mail-order company Ellos, whose customers this service was initially targeted. In May 2000 the R-Kiosk chain introduced the *Ärrä-Express* service which combined the pick-up point system with online retailing (e.g. Kauppalehti Extra 2000: 15). The *Ärrä-Express* service gives online shoppers a possibility to choose the nearest R-Kiosk as a delivery place for products bought via the internet. The R-Kiosk chain's cooperative partners in the development of the system have been a transportation company Kiitolinja Ltd. and a book retailer Suomalainen Kirjakauppa Ltd. (belongs to the Rautakirja Group) with its online services. The logistical solutions of the *Ärrä-Express* are based on Kiitolinja Ltd.'s existing transportation network and especially on its "Pakettilinja" parcel delivery system. By introducing this service the R-Kiosk chain is again strengthening the convenience element of the R-Kiosk concept and at the same time creating more customer visits to its

outlets. For the cooperative partners the service has given a new customer interface in the form of a nationwide chain of outlets with centrally managed retail operations. At present the service is available in 400 R-Kiosks. Several online retailers have joined the system and made it available for their customers. There are also plans to increase both the number of outlets offering the service and the number of partner companies in the future.

Developing the supporting IT-systems

Electronic cash register system ("Elka"). An integral and central part of the concept development in the 1990s was the development of the supporting IT-systems for the centrally managed R-Kiosk chain. Although the beginning of this process can be traced to the initial plans made in the mid 1980s, the actual building of the system was done in the 1990s in a controlled way during a short period of time, especially considering the scale of the system. In 1993/1994 began a renewal of the IT- and system management for the R-Kiosk chain. The objectives of the business were defined by taking into account for instance the different tasks of the salespersons (e.g. placing products on display, personal selling and cashing). Portable data terminals (PDTs) for instance were introduced in the mid 1990s to help the salespersons make inventories and to deal with campaign products.

The development of the electronic cash register system "Elka" (POS-system, point of sales system) was done in three stages (RKD 2001; also Rautakirjalehti 1997b). The first stage was in 1996 when a pilot project was launched and the proper functioning of the system was tested. The system was taken into use rapidly and thus in the following year, during stage two, the system was already installed in all R-Kiosks, except for the franchised outlets. The third stage of the development process began in 1998 and focused first on defining the needs of the franchised R-Kiosks. The third stage ended in 1999 when the system covered the whole chain. The result of the process is a system in which each cash register is connected to the supporting IT-systems, servers and applications which are centralized to the company headquarters. By using a nightly modem connection the system automatically transmits the data of the day's sales to the company headquarters. There are plans to further develop the "Elka" system to become a two-way information transfer system capable of conveying

information to kiosks. At present the "Elka" system is used for registering the data relating to sales, video rental and the ordering process.

Reporting systems ("Raket", "Market"). The sales data collected with the electronic cash register system is reported for the users with a "Raket" system. The building of this system began in the mid 1990s (RKD 2001). Since then the system has been constantly improved by for instance establishing the specific measures to control the correctness of the data collected in order to keep track of the performance of the system. The development of the fourth version of the "Raket" system was completed in 1998. In the same year started the development of a new generation of reporting system called "Market". In the development of this system the main emphasis has been put particularly on improving the utilization of the data in the chain management (e.g. campaign planning).

Process view of IT-production. Both the development of the electronic cash register system and the reporting system show that the IT-development process has been regarded in the company as a process which is closely linked with the explicit concept development process. At the same time the basis of the IT and system development process has been stemming from the business related customer needs. The company uses outside service IT-firms to provide the needed solutions and IT-applications for the development process. By doing this the company has been able to guide the process and to concentrate on the tasks related to the project management and to the supervision of the suppliers.

Introducing R-Kiosk teams

In the beginning of the 1990s there was a general change of thinking in the parent company and the R-Kiosk chain due to the beginning of the implementation of the planned concept development process. For instance the various interrelated planned changes concerning the transformation of the traditional window-counter kiosks into development units were not implemented without resistance from inside the company. A major change was also the introduction of the team management system for the company-run R-Kiosks in the beginning of the 1990s. A multistage training programme was launched in order to train the kiosk

personnel to work in teams consisting of a kiosk manager and two or more sales clerks. The team management system was seen as a means to cope with the resistance to change, to prepare the personnel for the future changes and to bring the needed profit thinking to the R-Kiosk chain. The team training was also a way to bring the management of the chain closer to the company's field personnel. It can be argued that the introduction of the team management system was one of the changes in the 1990s which together with the development of the supporting IT-system have considerably improved both the central chain management and the in-store retail operations in the individual R-Kiosks.

Preparing for the future: R-Kiosk as a convenience store

The transformation of the R-Kiosk chain in the 1990s has had a clear objective: to prepare the chain for the future changes in the Finnish retail system. This preparation has been done in relation to the changes in the various retail environmental factors like competition, retail legislation and above all in consumer behaviour. The preparation has been based on an explicit strategic choice which has been the driving force in the managed process of converting R-Kiosks into convenience stores. This process could not have been possible without the company's active monitoring of market dynamics, their own performance and competitors' performance by using benchmarking and market research methods.

Competition - Positioning. The competition between retail formats both in the convenience store retail sector in particular and in the food retailing sector in general has had an effect on the R-Kiosk chain. This environmental change can be seen in the introduction of the convenience store type of small shops at petrol and service stations in the 1990s, in the launch of the Pikkolo chain by the Finnish retailer Kesko and in the most recent entry of the German low-price retail chain Lidl into the Finnish market. From the viewpoint of the R-Kiosk chain there is in Finland a strong network of small retail stores. This affects the profitability of the convenience store sector. When the R-Kiosk chain has been developing towards a convenience store format so that its minimarket type of outlets now actually resemble small retail stores, the chain has moved closer to the existing and established low-

price and low-service retail chains (like Siwa and Alepa) operating in the food retailing sector.

The strategic strong point of the R-Kiosk chain is not however in the sales of food products. At the moment the R-Kiosk chain has been positioned so that it does not directly compete with food retailers. If and when in the future the operating hours of retail stores are not anymore regulated in Finland, this retail environmental change will have effects on the existing small stores. It is believed in the chain that for instance the decline in the number of small retail stores might create improved possibilities for retailers like the R-Kiosk chain. Today the R-Kiosk chain is not a full-scale food retail chain but a multiple service retail chain with many key characteristics of the modern convenience store. In every R-Kiosk customers can buy the so-called "survival packs" from the wide selection of the most essential products and services for immediate consumption. Thus the nature of the R-Kiosk is more related to emergency shopping than to fill-in or supplement shopping. So in the future the changing competitive situation might open a new window of opportunity for R-Kiosks to become a genuine fill-in and supplement shopping store. The widening of food assortments for instance in relation to the changes in the competitive and legislative situation would position the chain even more closer to the ordinary small retail stores. Much depends also however on the changes in customer demand in the future. It can be argued that at the moment in Finland there is not a well-established fill-in or supplement shopping culture. The popularity and the wide customerbase of the R-Kiosk chain show however that there is a demand for a R-Kiosk retail format with its present combination of pleasure shopping and convenience shopping products and many additional services.

Deregulation of legislation - Opening times. A big question mark for the future of kiosk trade and the convenience store sector is the deregulation of legislation which has controlled both kiosk trade and the opening times of retail stores. Traditionally the best day from the sales viewpoint for the R-Kiosk chain has been Sunday when ordinary retail stores are closed. Since January 2001 the legislation has given even more freedom for retailers to keep their stores open on Sundays (Finnish law 2000). For the R-Kiosk chain this change caused a slight decline in its Sunday sales: the sales remained below the respective sales of previous

years. Typically R-Kiosks are open from 8 in the morning to 9 in the evening. The opening times of the R-Kiosk chain are not centrally determined since a great deal of flexibility is given to an individual R-Kiosk to decide its operating hours according to the characteristics of the selling location and the customer flow. Today the legislation allows only the maximum 100 m² floor space for kiosks. The average floor space of R-Kiosk is about 80 m². According to the company this might not be enough in the future, and more selling space is needed.

Strategic choice: a managed process towards convenience stores. The R-Kiosk chain has done the concept development especially in the 1990s according to its own explicit objectives. The long history of the company and the R-Kiosk chain shows that the chain has been a forerunner both in the kiosk trade and in the convenience store retail sector in Finland. The strategic choice made in the 1990s has been to develop the chain towards a modern convenience store chain. At the same time the company has continued to develop and fine-tune the set of factors which might give it success in the changing retail environment in the future. The company sees that these factors are above all related to the versatility, multifacetedness and flexibility of the centrally administered retail chain in the rapidly changing retail marketplace.

4.4.5. Conclusions

The case has focused on describing chronologically the evolution and adaptation of the R-Kiosk retail format in the Finnish retailing context. The case was conducted in order to understand the various institutional and operational changes involved. The view of change adopted here was based on the relativistic premises of the dynamic reciprocal interaction model, which suggest that retail change is produced by the dynamic interaction between retail format, managerial behaviour and context.

Three major stages of evolution and adaptation of the R-Kiosk retail format were identified. The first stage starts from the 1910s when the company was founded and covers four decades (1910s–1940s) during which the company established a comprehensive network of

kiosks for the distribution of newspapers and literature. The second stage (1950s–1980s) was mainly a period of concept formation and testing. The nationwide network of kiosks started to operate under the name of R-Kiosk. The product and service mix of R-Kiosk was widened and a new indoor/walk-in type of kiosk concept began little by little to replace the traditional window-counter kiosks. In the end of this period the company started to develop its franchising operations and gained new experience in operating convenience stores. In the third stage (1990s–2001) the concept development process accelerated and occurred through four parallel waves. The development units, the new kiosk concept launched in 1992, became the most dominant type of retail outlet within the R-Kiosk chain. The introduction of the minimarket concept in 1997 showed clearly the direction of the explicit managed retail change process of the R-Kiosk chain in the 1990s. The minimarket type of R-Kiosks were actually small retail stores, the unique Finnish version of a convenience store concept, offering products and services tailored and adapted to suit the preferences of Finnish customers.

During the long history of the R-Kiosk chain both institutional and operational changes have taken place. The long-term evolution showed how the business sector in which the R-Kiosk chain operates has changed from kiosk trade to convenience store retailing sector. This institutional change has included also the integration of video rental and the gaming product business, and most recently also e-commerce, to the original R-Kiosk concept. These institutional changes are apparent if we look how, as a result of the explicit process of concept development, the outlook of R-Kiosks has changed from traditional window-counter kiosks, to indoor/walk-in kiosks and development units, and later minimarkets. By looking at these four waves of concept development the relation between the institutional and operational changes can be identified. Each of the four waves have meant possibilities for the widening of merchandise assortments and for combining new services. Although the case showed that the driving force behind the changes and the concept development has been proactive managerial behaviour, the retail development process has been constrained all the time by the context, especially by the legislative environment.

Rather than being a single evolutionary process the evolution of the R-Kiosk retail format has occurred through many parallel interrelated processes like the development of information technology systems, management practices and concept development. The evolution of the R-Kiosk format since the 1950s has been characterized first by the formation of the kiosk concept and the institutionalization of the R-Kiosk format, then by the management of the retail format, and later in the 1990s by the explicit concept and system development. Thus the direction of retail change has been towards explicit system development. This change from simple to complex can be seen for instance in the integration of different product and service elements to the original concept and in the building of the networks of cooperative partners for providing the services for the expanded retail concept.

The empirical findings of this case raise the questions whether the evolution of the R-Kiosk chain has followed a unique path in the context of the Finnish retail system or whether the evolution shows similarities which have been seen in other contexts with regard to the evolution of similar retail formats. These questions can be approached both from the substantial and theoretical viewpoints. The international examples in the field of convenience store retailing show for instance how the integration of products and services and the many incremental improvements have changed the nature of the convenience stores. The efficient management of the network of convenience stores requires the use of the supporting IT-systems. The evolution of the R-Kiosk chain in the 1990s shows how the process of retail format change in Finland clearly converges with the development of modern convenience store retailing or with the "global standard" set with the leading convenience store retailers in the world (e.g. Seven-Eleven Japan).

In spite of the similarities with the examples from international convenience store retailing the R-Kiosk case also clearly shows how the retail change phenomenon is dependent on both the managerial behaviour and the context in which it is occurring. The relativistic view offered by the dynamic reciprocal interaction model allows these key aspects of retail change to be taken into account. The case illustrates also how the long-term institutional and the short-term operational changes have affected the formation of the R-Kiosk retail format. The close interaction between the institutional and operational changes, depicted in the model as

the dynamic reciprocal interaction between the different levels of abstraction, can be seen in the effect of institutional changes and adaptation on the operational level especially during the intensified period of concept development in the 1990s. The observed similarities and differences between the evolution and adaptation of the R-Kiosk and Seven-Eleven Japan are discussed in the cross-case analysis part of the study (section 4.6.).

4.5. Case 2. Evolution and adaptation of Seven-Eleven convenience stores in Japan

4.5.1. Introduction and background

Seven-Eleven Japan and Ito-Yokado Co., Ltd.

Seven-Eleven Japan is Japan's leading convenience store chain with 8602 stores in Japan and 59 stores in Hawaii. Among Japanese retail companies *Seven-Eleven Japan* is in the first position when measured by net income and in the second position, after its parent company *Ito-Yokado Co., Ltd.*, when measured by operating income. The company has a 33 percent share of the total store sales of convenience stores in Japan. Thus it dominates the Japanese markets before Lawson (21 %), Family Mart (14 %), and Circle K (7 %) and other convenience store chains. With a total market value of 33230 million USD the company is the world's fifth-largest retailer. The total store sales of the chain is 17643 million USD. The network of *Seven-Eleven* convenience stores consists of 21275 stores in 19 countries in Asia, North America, Europe and Australia. *Seven-Eleven Japan Co., Ltd.* and *Ito-Yokado Co., Ltd.* are the largest shareholder (IYG Holding Co.) of 7-Eleven, Inc., the *Seven-Eleven* convenience store operator in the US. (SEJ 2001a, 2001b; SEI 2001; Ito-Yokado 2001.)

Seven-Eleven Japan Co., Ltd. belongs to the *Ito-Yokado Group*. The history of this group began in 1958 when *Yokado Co., Ltd.* (since 1971 *Ito-Yokado Co., Ltd.*) was established. From the 1960s the growth of the company was based on the opening of a chain of multi-storey superstores located in suburban areas. Today the group consists of companies operating in the convenience store, superstore (e.g. *Ito-Yokado* chain; 182 stores) and restaurant (e.g. *Denny's Japan*; 534 stores) business. In addition to the retail operations

which include also supermarkets (e.g. York-Benimaru; 91 stores), specialty and discount stores, and department stores, the group has also other business operations in the fields of financial services and publishing. The total sales of the Ito-Yokado Group is 46125 million USD. (Ito-Yokado 2001; Barrett & Buehler 1997; Bernstein 1994.)

Convenience store retailing, and the Japanese retail and distribution system

Convenience stores began to emerge in the Japanese retailing scene after the opening of the first convenience store by York-Seven Co., Ltd. in Tokyo's Koto-ku area in 1974 (Ito-Yokado 1996: 13; Fukunaga 1999: 5). The number of convenience stores increased especially in the 1980s and the growth has continued during the 1990s (e.g. Larke 1994: 145). Since the mid 1990s there has been a slowdown in the increase of the number of stores although during the period of 1994–1997 the number of convenience stores² still increased by nearly 28 percent (Tsuji 2000: 330; Ikeda 2000: 49; DEJ 2000: 28). As a result of the market dominance and store opening strategies of the leading chains the convenience store sector in Japan is highly saturated and there is fierce competition between the stores. In 1998 in Japan there were over 36700 convenience stores operated by 74 companies and over 2500 mini-supermarkets operated by 21 companies (DEJ 2000: 65).

The Japanese distribution system has been described as consisting of the hard and soft distribution structures (Tajima 1984: 16). This so-called dual structure, which is often regarded as one of the most distinctive features of the Japanese distribution system, refers to the existence of a large number of small-scale distributors with low productivity and a

² This depends on how a convenience store is classified and defined in the retail statistics. According to Tsuji (2000: 330) the number of convenience stores in Japan reached about 53000 in 1999. A far lower figure is given by DEJ (2000: 65): 36754 stores in 1998. DEJ (2000: 65) makes a distinction between convenience stores and mini-supermarkets (convenience store: sales of perishable food are under 30 percent, business hours is over 14 hours, most of sales floor area is under 250 m²; mini-supermarket: sales floor area is under 500 m²). Also other definitions exist. For instance in the Japanese legislation (the Large Scale Retail Store Law amended in 1979) a convenience store is defined as having a self-service, sales space between 50 and 499 m², opening hours over 12 per day and closing time after 9 PM (MITI 1985, ref. Davies & Itoh 2001: 85). According to the Japanese Franchise Chain Association a convenience store has sales space between 60 and 230 m², trades more than 1500 items, and is open over 14 hours a day and over 340 days a year (Davies & Itoh 2001: 85). Ogawa (2000: 263) defines concisely a convenience store as a retail store that supplies to consumers items, such as food, beverages and household supplies, that are typically used within one hour of purchase.

limited number of large-scale distributors with high productivity (Shimaguchi 1993: 174). In 1997 there were over 1,4 million retail establishments in Japan (DEIJ 2000: 28). The average floor space of retail stores is small (58 m²; in 1985) (Maruyama 1993: 7). Retail stores with selling areas of 500 m² and over accounted for only under 2 percent of the total number of retail store but about 28 percent of the retail trade's total annual sales in 1997 (DEIJ 2000: 18). Because of the dual structure the Japanese retail and distribution system has both traditional and modern aspects and the retail institutions fall into two general classes: the modern and the traditional retail institutions (e.g. Goldman 1991).

The soft, modern distribution structure consists of large-scale retail formats like general, speciality and discount supermarkets, shopping malls and shopping centres, wholesale clubs, and also of small flexible retail formats like convenience stores and mini-supermarkets (e.g. Ogawa 1984: 15; Goldman 1991: 162–163, 1992: 27–28; Retail Insights 1997a; DEIJ 2000: 48; Tajima 1984). These retail institutions emerged as a response to the rise of the mass consumption society and the materialistic orientation of customers (e.g. Yoshino 1971a, 1975: 19–20). This change occurred in the 1950s and the 1960s and brought about radical changes for both retailers and manufacturers (e.g. the adoption of mass distribution policies, rebates and discounts) (DEIJ 1973-74: 22–26; Yoshino 1971b: 390–395). After the introduction of the self-service concept and the supermarket institution in Japan in the 1950s the number of supermarkets and other modern retail institutions began to increase rapidly especially in the late 1950s and the 1960s (e.g. Yoshino 1971b: 400; Tajima 1971: 64–68, 1996: 14; Takaoka 1989: 54). The traditional retail institutions form the hard, rigid part of the Japanese distribution structure which consists of mainly family-owned small-scale retailers, the so-called mom-and-pop stores, and neighbourhood stores (e.g. Goldman 1991: 161–162).

The various interrelated causes, processes and factors explaining the formation of the institutional context of Japanese convenience stores with its traditional and modern retail structures can be classified into four broad classes: external or retail environmental factors, internal or retail and distribution system related factors, supplier or manufacturer related factors, and consumer related factors (Shimaguchi 1993: 174–175; see also Yoshino 1971a;

Hirschmeier & Yui 1975: 269–274; McMillan 1984: 244–245; Takaoka 1984: 18, 1989: 54; Goldman 1991: 173–175; Tajima 1994: 10–15; Kakeda 1994: 36–37). By taking into account the aforementioned factors it can be argued that the traditional retail structure of Japan is the result of a long historical process in which the retail system has interacted with its external environment and responded to changes in society (e.g. Boulding 1970: 133–147; Fruin 1994: 68–69) and in the supply and demand of goods. The external factors include Japan's demographic and geographic characteristics (e.g. high population density and the limited space for larger stores in densely populated areas). The high economic growth and later the protective retail legislation and the high price of land have also favoured the existence of a large number of small-scale retailers and wholesalers. The internal factors include the internal nature of Japanese retail business with its old customs and trade practices and for instance retailers' traditionally strong preference for individual proprietorship. The small-scale retailers have also in general lacked the financial possibilities to expand their family-owned businesses. On the supply side the small-scale manufacturers have served the needs of the local populations and distributed the goods through local small wholesalers and retailers. Some of the main consumer related factors include consumers' traditionally high savings rate, their general preference for personal services, and frequent shopping trips to small local stores for obtaining fresh perishable food.

The external forces influencing the distribution revolution and the emergence of the modern retail structure are related to three general processes: the modernization of Japanese society, the rapid post-war economic growth and the development of the mass consumption society with modern infrastructures. The retail system has been evolving by renewing and responding to these changes. One of the main internal, retail system related factors for the formation of the modern retail structure has been the emergence of innovative retailers and entrepreneurs, which were able to expand their businesses by utilizing the prevailing trade practices and customs, and distribution networks. Also for instance the development of centrally administered chain store operations and the use of new retail technologies provided possibilities for retailers to adapt to the changing retail environmental conditions. On the supply side one of the most important factors has been the emergence of modern mass manufacturers and later the development of Japanese industry. More efficient distribution

channels and retail institutions were needed to distribute mass-produced products to the growing numbers of urban middle-class consumers. Thus the modern retail institutions, both large-scale retailers and small flexible retail formats, emerged to fulfil these new distribution needs. Equally important causes for the retail revolution are related to consumer factors. The modern retail institutions succeeded to take into account the changes in consumers' lifestyles, consumption patterns, product needs, and price-consciousness and thus become institutionalized and accepted in Japanese society.

The retail change process is going on and the Japanese retail and distribution environment is changing towards shorter distribution channels with a decreasing number of wholesalers and small retailers, increased vertical channel integration, simplified trade customs and practices, and increased use of information technology (Miyashita 1989: 44; Shimaguchi 1993: 181; Czinkota & Woronoff 1991: 112–113; Sakamoto 1995). The Japanese retail and distribution system has often been criticized for its invisible and visible barriers of entry. The invisible barriers like buyer behaviour, distribution channels, the oligopolistic structure of industry and trading groups are greatly influenced by Japanese cultural and social elements (Samiee & Mayo 1990: 62), which can be regarded as the inherent parts of the internal political economy of the Japanese distribution system (e.g. Goldman 1991). The main visible barrier is the legislation which has regulated the opening of large-scale retail institutions like supermarkets. The legislation originates from the 1930s when small retailers were protected against department stores (Larke 1994: 107; Tajima 1971: 112). The deregulation in the 1990s has created a more competitive retail environment and reduced consumer prices (e.g. Tajima 1996: 15). It must be noted here that being small retail outlets, convenience stores have avoided this retail regulation. The legislation has favoured them and thus for instance the Seven-Eleven chain has been able to compete with traditional small retailers on the basis of longer operating hours and lower prices (Davies & Itoh 2001: 85; Barrett & Buehler 1997: 575).

Another central characteristic of the Japanese retail and distribution system is the existence of corporate networks, keiretsus, - the powerful actors in Japanese industry, economy and distribution (e.g. Fruin 1994: 23–24; Hirschmeier & Yui 1975: 263–268; Miyazaki 1980;

Sakai 1990). Traditionally retail change in Japan has been manufacturer driven due to the dominance of the large manufacturers, and the integration of distribution to the marketing mix (Kotler & Fahey 1982: 7). There have also been changes in this regard, since the changes towards the modern distribution system together with the emergence of retailers with their growing channel power have resulted in the dual retail structure and parallel channel systems in Japanese distribution: the manufacturer-led, traditional channel and the retailer-led, modern and rational channel (Goldman 1991: 173–175; Shimaguchi 1993: 185; Lohtia, Ikeo & Subramaniam 1999: 265–266).

Stages of evolution and adaptation

The evolution and adaptation of Seven-Eleven convenience stores in Japan is described in this case study chronologically decade by decade. At first, before presenting the history of the concept in Japan, the origin of the concept is described in order to understand the concept's American roots and influences. The first stage of the actual case description covers the 1970s when the concept was introduced in Japan and the growth of the chain in Japan was started. The second stage, the 1980s, describes the development of the concept by introducing numerous additional services in convenience stores and refining the existing IT-systems. The third stage covers the years 1990–2001, a period when new retail elements (like e-commerce) were combined to the store concept to further expand the convenience aspects of the concept. The key years and events in the history of the company referred in the text are presented in Appendix 4.

4.5.2. Origin of the concept

The beginning of convenience store retailing and the history of the Seven-Eleven began in the 1920s in the US, in the decade often referred to as the "chain store age", when the Southland Ice Co. (in 1927, in Texas, US) began to sell groceries like milk, bread, eggs etc. as a convenience for its customers at some of its retail ice docks since ordinary grocery stores were closed on Sundays. The sales of stable food was profitable and soon similar merchandise was also introduced in the company's other ice docks, some of which were also

selling gasoline, and operating under the name *Tote'm* stores. (Kotler 1988: 165–166; Vastine 1991: 27; Barrett & Buehler 1997: 581–582; Bernstein 1994: 9, 1996: 2; Shook & Shook 1993: 225–230; Hollander & Omura 1989: 304–309.)

The sales of ice still formed the core business of *Tote'm* stores in the 1930s during the years of the Great Depression and in the 1940s during World War II, although the product range was broadened with products such as frozen food and beauty products. An important year and a milestone in the company's history was in 1946 when the name *7-Eleven* was taken into use. Together with the new name also other major changes in the store concept and store architecture were planned and implemented giving 7-Eleven stores many of its typical characteristics (e.g. the store design and green and white colours, the pylon with the 7-Eleven sign, car parking area in front of the store etc.). In the beginning of the 1950s the company started to expand its retail operations from regional markets to other areas within the home state, and later to other states. The expansion of the store network to nationwide markets occurred in the 1960s when over 3000 new stores were opened. At the same time the product line of the stores was widened to cover for instance prepared foods and rental items (like TVs). The "open 24 hours a day" was introduced in 1963. Since 1976 some stores also began to sell petrol. In general the boom period for the convenience store retailing business in the US continued until the late 1980s. The 5000th store of the 7-Eleven chain was opened in 1974, in the same year when the first store based on this concept was opened in Japan by York-Seven Co., Ltd. (Bernstein 1996: 2–4; Shook & Shook 1993: 230–252; Barrett & Buehler 1997: 582; Vastine 1991: 28; Kirby 1986: 7–8; Sparks 1994: 337.)

Because of the great variety of products and the many services (e.g. the sales of money orders, lottery tickets etc.) introduced during the course of its evolution, the 7-Eleven stores gained the reputation of being "the little stores which have everything" (Bernstein 1996: 3–4; also Kotler 1988: 167–168). The parent company of the chain, Southland, has been regarded also as a leading innovator not only with the development of its distribution system (since 1969; with regional distribution centres having computerized methods of inventory control, merchandise handling and delivery), but also with the management of the chain with

its "area licensing" franchising concept used both in the chain's domestic and international expansion and growth (Bernstein 1996: 4; Shook & Shook 1993: 233–234).

When considering the innovativeness of Japanese convenience store retailing compared to the original concept and its system of operations in the US, several factors must be taken into account. First, it must be noted that organizational learning (i.e. the institutional capacity to borrow, imitate, learn, and innovate) has been regarded as one of the fundamental strengths of the Japanese enterprise system (e.g. Fruin 1994: 82). Second, many authors have observed the strong foreign influence on Japanese marketing thought, marketing strategies, management methods and innovations, and the American origin of many retail innovations like supermarkets and convenience stores (e.g. Yoshino 1971b: 404; McMillan 1984: 230; Takaoka 1989: 54; Tobin 1992; Herbig 1995; Dawson 1985: 48; Tatsuki 1995: 71, 81–82). Third, in general Asian retailers (like the Ito-Yokado Group) have been active in creating chain store operations and in duplicating the existing retail formats (Davies 2000: 66, 70).

For the aforementioned reasons it is important to acknowledge the close interrelatedness of the American know-how (particularly when introducing the Seven-Eleven convenience store concept), the Japanese retail environment and the management and marketing effort of the Japanese convenience store companies themselves. Creative modification and adaptation have been needed in adjusting the retail innovations of foreign origin to suit the Japanese retail environment and cultural setting (e.g. Yoshino 1971b: 401–404; Lazer, Murata & Kosaka 1985: 71; Huuhka 2000). The Japanese companies have traditionally shown a great deal of adaptive creativity when refining ideas and technologies in order to create new products and markets, and when commercializing ideas (Herbig 1995: 13–16). Continuous adjustment and adaptation are also needed because retail institutions like all organizations must draw on the surrounding environment for resources and respond to the external demand for their outputs, products and services (Westney 1987: 6).

4.5.3. 1970s: Introducing the concept in Japan

As a result of the various long-term processes concerning the formation of the Japanese retail system and the retail environment (section 4.5.1.) a window of opportunity was opened for the emergence of a new small chain-managed retail format in the early 1970s. The first Japanese retailer to successfully exploit it was Ito-Yokado Co., Ltd. In particular the company took advantage of the possibilities given by the prevailing retail legislation, the utilization of the franchising system when converting existing retail stores into convenience stores and the use of the latest retail technologies.

Competition and legislation at the time of introduction

Supermarkets started to expand rapidly in Japanese retailing in the late 1950s and 1960s (Tatsuki 1995: 83). Thus in the early 1970s the increasing number of large-scale retail stores such as superstore chains had resulted in a competitive situation in which the position of the small retail businesses was protected by the Large Store Law (e.g. Bernstein 1994: 2; Larke 1994: 107–110). Because of the legislative restrictions placed on the opening of the large-scale retail formats, convenience store retailing soon became so attractive new business sector for the big retail companies, that the new sector provided a basis for their expansion and diversification strategies starting in the 1970s, but occurring predominantly in the 1980s (Fields 1994: 70; Ikeda 2000: 43, 46; Meyer-Ohle 1995; also Tatsuki 1995: 85). Although there had been some earlier trials and pilot projects concerning running small self-service stores and convenience stores by other companies (e.g. a voluntary chain My Shop in 1969; Family Mart by Seiyu in 1973), the actual pioneers in the Japanese convenience store retailing business were Ito-Yokado and especially its executive Mr. Toshifumi Suzuki (today the Chairman and CEO of Seven-Eleven Japan Co., Ltd.) who invented and brought up the ideas of exploring the possibilities of a licence agreement with Southland and for launching a convenience store chain in Japan (Meyer-Ohle 1995; Bernstein 1994: 1–3, 1996: 7; SEJ 2001b).

Licence agreement and the opening of the first stores

The franchising licence agreement with the chain's licence owner Southland was signed in 1973, and as a result, a subsidiary of Ito-Yokado, *York-Seven Co., Ltd.* (Seven-Eleven Japan Co., Ltd. since 1978) was established to operate the chain in Japan (Ito-Yokado 2001: 43; also Bernstein 1994: 3). With this area licence agreement Japan became the second country in the chain's international expansion after Mexico which had opened stores two years earlier (Shook & Shook 1993: 234). In the very beginning a task force, Mr. Suzuki (at that time president of York-Seven) as a member of it, was formed by the company to carry out and implement the introduction of the chain. Based on the franchising agreement the management know-how and the basic strategy of running the convenience store business were provided by Southland.

In the US the land and property of a convenience store was owned by the company, in Japan however, because of the high cost of land, a different strategy had to be adopted. Mr. Suzuki had recognized the potential of Japan's high number of small mom-and-pop stores for the chain's expansion and store opening strategy, the central idea of which was to convert them into convenience stores with a franchising system, and thus take into account the local circumstances and customer base. A great effort was placed on converting small liquor stores which not only occupied the best locations but also possessed the otherwise difficult to obtain licence for the sales of liquor (e.g. Meyer-Ohle 1995). The first store of the chain, opened in Tokyo in 1974 under the name of *York-Seven*, was a converted liquor store (e.g. Meyer-Ohle 1995; Bernstein 1996: 23). The store opening strategy proved to be successful: after four years the number of stores was nearly 200, and in 1980 the chain already consisted of approximately 1000 stores (Bernstein 1994: 14, 1996: 8). It must be noted that in the 1990s and today the store conversions are in the central role in the chain's market dominance strategy (Bernstein 1996: 23; SEJ 2001a: 6; also Sparks 1994: 339).

The first Seven-Eleven Japan's convenience stores were similar to the original stores in the US, but they carried a different product mix (including fresh merchandise) which was adapted to suit Japanese consumers (Shook & Shook 1993: 234; Meyer-Ohle 1995).

Because of the small floor space (typically 100 m² with 2500 sales items on average) a great importance was placed on planning the right product mix for the stores. Mr. Suzuki had noticed that although fast food products were very important for the chain in the US there were major differences in the eating customs between the countries. The solution was to innovate and introduce the Japanese type of fast food products like rice balls and lunch boxes, the typical home-made stable food in Japan (also e.g. Bernstein 1996: 15). In the beginning the stores were able to sell only just a few such items per day. Since then the fast food products together with other prepared food products have become an important product category (e.g. today an average store sells daily 300–400 rice balls). In the beginning the opening hours of the stores was from 7 AM to 11 PM. The first store of the chain which was open 24 hours was opened in 1975 (Meyer-Ohle 1995).

Franchising system

In Japan, according to Larke (1994: 149), a franchising system is used by most of the largest and fastest growing convenience store companies. The system was first used by big manufacturers (e.g. in the car industry) and was adopted by retailers around the time of the emergence of chain stores since the 1960s when retailers wanted to utilize the advantages of the chain store operations (e.g. Tatsuki 1995: 75–76; Czinkota & Woronoff 1991: 123–124). It has been noted that in Japan the franchisors exercise a strong control over their stores and are more closely involved in the store-level operations than for instance the corporate management of US retail companies (Goldman 1992: 27–28; Larke 1994: 149; Fukunaga 1999: 7–8; Bernstein 1996: 12). Seven-Eleven Japan started to use the franchising system and to develop the related chain management skills from the very beginning: the first (York-Seven) store of the chain was operating on the franchise basis. It was a decision which Mr. Suzuki preferred more than the idea of launching a company-run pilot store proposed by Southland (Bernstein 1994: 5). Thus the growth of the Seven-Eleven convenience stores has been based on the pioneering innovativeness related to the chain management skills applied by the franchisee and the use of advanced information technology systems and other services and benefits to support the personnel in an individual store (e.g. Bernstein 1996: 12; Sparks 1994: 339).

Item-by-item control - Beginning of the point of sales systems

Japanese retailers had studied and experimented with the point of sales systems (POS-systems) already in the mid 1960s but the real development in this field commenced in the late 1970s when for instance the JAN (Japanese Article Number) bar code was introduced (in 1977) (Asano 1993: 128). From the start Seven-Eleven Japan put an emphasis on the effective use and development of the IT-systems for store operations, and has during its evolution relied on the quality of information as a means to increase profits (Fields 1994: 70). The core of the Seven-Eleven Japan's operation is the "item-by-item control" (*tanpin-kanri*), the fundamental retail management philosophy emphasized by Mr. Suzuki, which today is based on highly sophisticated IT-systems, considered as the retail industry's leading benchmarks by Japanese and US retailers (e.g. Ogawa 2000: 263-264, 276-277).

The development process, which has continued through several stages (or generations) during the 1980s and 1990s, and which, according to Ogawa (2000: 269), shows that Seven-Eleven Japan's quest for more refined applications and systems (e.g. the test-verification ordering system utilized today) has been a process of constant trial and error, began in 1978 with the introduction of the electronic ordering system (EOS-system) (e.g. SEJ 2001a: 15). This (first generation) system replaced the earlier time consuming ordering processes based on phone ordering and sheet ordering systems. In the new system all the ordering data entries were made by store personnel and submitted via telephone lines to the company headquarters (Ogawa 2000: 269-270).

4.5.4. 1980s: Refining IT-systems and introducing new services

The evolution of the Seven-Eleven convenience stores in the 1980s is above all characterized by the developments related to the refinement of IT-systems and to the introduction of a variety of new services. These two streams of development took place at the same time when the number of small retailers was further declining (especially after the mid 1980s) and when the convenience store retailing sector grew, encountered more competition and attracted many new entrants (Ikeda 2000: 43; Meyer-Ohle 1995). In order to enhance

profitability Seven-Eleven Japan, followed by other major retail companies, invested in the use of advanced IT-systems. In the late 1980s convenience stores became the most profitable retail category in Japanese retailing (Fields 1994: 70).

Comprehensive Operation Reform Project as an impetus for the development process

As a remedy for the difficult times the company had been facing since the late 1970s (e.g. the energy crisis, reduced consumer spending and decreasing margins) the Seven-Eleven Japan's parent company Ito-Yokado launched in February 1982 the "Comprehensive Operation Reform Project", the main goals of which were to increase efficiency and to boost profitability of Ito-Yokado superstores and Seven-Eleven convenience stores (Ito-Yokado 2001: 42; Barrett & Buehler 1997: 576). The central means for achieving these goals was to use information technology for following changing consumer preferences and for monitoring the flow of merchandise (Barrett & Buehler 1997: 576–577, 569). For the Seven-Eleven Japan's stores the implementation of the project meant in particular the introduction and rapid installation of the new generation of POS-system. Thus the project actually paved the way for the related improvements made later in the 1990s. Even today the project meetings are arranged weekly.

Developing IT-systems

In 1982 Seven-Eleven Japan began to use POS-system to carry out item-by-item inventory control (Ito-Yokado 1996: 13; Sparks 1994: 342). This second generation of POS (cash register) system soon became (in 1983) the standard set-up in every store of the chain (SEJ 2001a: 15; Ito-Yokado 2001: 42; Barrett & Buehler 1997: 579). Thus as a result of this IT-system reform Seven-Eleven Japan's system in the early 1980s consisted of the POS cash register, the terminal controller (i.e. store computer) and the electronic order book (EOB, or handy terminals introduced in 1983) (e.g. Ogawa 2000: 270–271; SEJ 2001a: 15). This system allowed the store personnel e.g. to collect the inventory data and send it from the handy terminal to the store computer and company databases, and to enter to the databases not only customer's sales record data but also basic categorized customer information for

customer profiling (e.g. Ogawa 2000: 271; also Fukunaga 1999: 7; Larke 1994: 150; Washida 1997: 11).

The next refinement of the IT-system took place a few years later, in 1985, when Seven-Eleven Japan introduced and installed personal (store) computers using colour graphics (SEJ 2001a: 15) to be used e.g. in simple visual data analysis of sales records when placing orders (Ogawa 2000: 271). In the following year (1986) the company introduced and installed interactive POS registers (the third generation system). This was an important enhancement of the system because the earlier systems could only be used for one-way data transmissions. With this third generation system it was possible for the company headquarters to send data from the host computer to the POS registers in individual stores. The store personnel could also for instance check the availability of products and make reservations for customers.

The development of the IT-systems in the 1980s followed a process of systemization of different tasks of inventory control for monitoring customer demand. At the same time the new systems made the execution of the different tasks easier for the store personnel. It must be noted that by developing the more advanced IT-systems in the 1980s and 1990s Seven-Eleven Japan could not only provide for its franchisees the most leading retail technology (with a few years lead over other companies) to support the in-store operations but also to attract new franchisees and thus expand the network of the stores.

Introducing new services

Since the 1980s many Japanese convenience stores started to add and develop services available for their customers. The most typical of them were the acceptance of payments, but some chains also offered services like ticket reservations, dry cleaning or car rentals (e.g. Larke 1994: 152–153; Fukunaga 1999; SEJ 1999: 16; Chiba 1999: 11; Bernstein 1994: 18; Meyer-Ohle 1995). Many additional services introduced were before long imitated by other convenience store chains which made it difficult for retailers to differentiate the stores on the basis of services (Meyer-Ohle 1995). At the same time as these developments in service additions there were also changes in Seven-Eleven stores' merchandise mix: the importance

of processed foodstuffs gradually declined and the sales of fast food products and non-food items increased (Meyer-Ohle 1995).

In the early 1980s the Seven-Eleven chain began the service development process by offering services like the sales of movie tickets, postal package handling and copying services and later door-to-door parcel delivery services (Bernstein 1994: 18; Meyer-Ohle 1995; Barrett & Buehler 1997: 579). Today for instance self-service photocopying is available in every store of the chain. The service has become particularly popular among students and housewives. In order to being able to replicate this service to cover its whole comprehensive network of stores and to meet competition regarding this service sector the company asked a manufacturer to design and build a copying machine which had certain required functions and specifications and which could meet the price per copy limit set by the company for profitable operations.

The second phase of the company's service development process, now related to financial transaction services, began in 1987: bar code recognition systems were installed and customers could pay their electric bills (of Tokyo Electric) in Seven-Eleven stores (e.g. SEJ 2001a: 20; Bernstein 1994: 18; Meyer-Ohle 1995; The Economist 2001: 88; Sparks 1994: 347). The service was soon expanded to cover other utilities and payments (e.g. gas bills in 1988, public television bills and life insurance payments in 1989, and catalogue shopping bills in 1991). Nowadays this service not only deals with a greater variety of different payments but also covers a greater number of companies (245 companies; as in February 2001) (SEJ 2001a: 20). With this service the company has a three percent share of the Japanese utility payment market (The Economist 2001: 88). In Japan where in general banks close early, people work long hours and where customers prefer cash payments over credit card payments, the financial transaction services in convenience stores have become increasingly popular and a convenient service for consumers. The integration of these services to the convenience store concept has continued during the 1990s when the emphasis in the development was shifted to utilizing the new possibilities of e-commerce.

4.5.5. 1990s–2001: Expanding the concept: combining new retail elements

The years of economic growth in the 1980s was followed by the fall of the bubble economy in the early 1990s. Japan faced a period of economic stagnation which brought about changes in the retailing sector and in consumer expenditure and behaviour (e.g. Retail Insights 1997b: 330). For instance foreign retailers like the so-called category-killer specialty chain stores began to emerge, at the same time when many traditional retailers like department stores and general merchandise stores had financial difficulties (Ikeda 2000: 43; Fahy & Fuyuki 2000: 301). As a result the Japanese retailing scene was (and still is today) more and more characterized by deregulation, globalisation, more price-conscious and mobile consumers, and the utilization of new retail technologies (Meyer-Ohle 1999: 543). Noteworthy is also the intensified rate of change in the 1990s. For instance according to Meyer-Ohle (1999: 544) during the seven year period of 1991–1997 when the total number of retail establishments decreased by 12 percent and the number of wholesalers fell by 15 percent, the number of large general superstores however increased by 34 percent, and convenience stores by 54 percent. Since the mid 1990s the increase in the number of convenience stores has however been, to some extent, slowing down (Tsuji 2000: 330).

In the 1990s there were also variations and adaptations within the Japanese convenience store format in general. Examples of the adaptation were the combination of the concept with other businesses (e.g. video rentals, fast food restaurants, gasoline stations), the introduction of high-class convenience stores and scaled-down convenience stores and the further activation of the pricing policies by convenience store companies (Meyer-Ohle 1995). For Seven-Eleven Japan in particular the period of 1990s–2001 meant above all the continued refinement of the concept towards an extended customer convenience. The development of IT-systems (with the introduction of the fourth and fifth generation systems) and the integration of additional services to the concept continued. In the end of the period, since 2000, more emphasis in the service integration had been placed on the further development of financial transaction services (the establishment of IY Bank Co., Ltd.) and on the combination of new businesses (7dream.com and Seven-Meal Service) by utilizing the

possibilities of e-commerce and the chain's existing infrastructure. There were also substantial parallel developments regarding the company's distribution system.

Developing IT-systems

Seven-Eleven Japan introduced the fourth generation POS-system in 1992. The key improvement of the new system was the ISDN network, taken into operation in 1991, which replaced the ordinary telephone lines in data communications. Further upgrading of the IT-system took place first in 1995 with the introduction of the weather information system and then in 1996 when stores were equipped with satellite antennas. These improvements led to the latest refinement of the system in 1997: the introduction of the so-called "Fifth Generation Total Information System" (SEJ 2001a: 15). This comprehensive system is based on the use of satellite communication and ISDN network for transmitting and sharing multimedia information within the company's network. The system connects the company headquarters with district offices, combined distribution centres, manufacturers and individual stores (SEJ 1999: 9–10). The implementation of the system was completed in June 1999 after the introduction of new POS registers earlier in the same year (SEJ 1999: 10, 2001a: 15–16).

Today Seven-Eleven Japan's in-store information system consists of POS cash registers (with a colour monitor), a store computer, a colour printer and hand-held scanner terminals and graphic order terminals (SEJ 2001a: 17). The system's POS data applications include for instance the "sold-out merchandise tracking data" (e.g. for displaying the sales trends of individual items), the "merchandise information package" (e.g. for making visual representations of the sales floor and for showing the position of items on the shelves) and the "business and event calendar" (e.g. for displaying local weather forecasts and regional events and festivals which might affect customers' purchasing patterns) (SEJ 1999: 9–10; also *The Economist* 2001: 88).

The technology and software used in the company's IT-system and in the most recent e-commerce applications have been created in cooperation with high-tech companies (e.g.

NEC, Numura Research Institute, Microsoft) (e.g. *The Economist* 2001: 87; SEJ 2000: 10). As Seven-Eleven Japan is granted exclusive rights (for a certain period of time) to the technology and software developed, the chain can provide its large network of franchised stores with the latest retail technologies and know-how before any competitor can have access to similar applications. The state of the art IT-systems have given the company many advantages, which are not merely related to the company's increased ability to monitor and to respond to customers' rapidly changing needs, to improve its quality control, pricing and product development, to predict daily sales trends of the individual stores, but also to improve the efficiency of the company's entire supply chain (*The Economist* 2001: 87–87; also Meyer-Ohle 2000: 126).

Introducing Seven-Eleven Express stores

When opening new stores Seven-Eleven Japan conducts detailed analysis of the characteristics of the location, market area and population base in order to facilitate the customizing of the product assortments to match the markets, and to ensure the profitability of the stores (e.g. SEJ 2001a: 8). In the beginning of the 1990s because of the very high price of land particularly in the metropolitan areas the company found that while it was not always profitable to open an ordinary Seven-Eleven convenience store in certain locations, the customer base of these locations could however generate a sales volume which could support a convenience store of smaller size and narrower merchandise assortments. This led the company to open in July 1993 a smaller and somewhat modified version of its ordinary convenience store concept under the name *Seven-Eleven Express*. The launch of the new store concept occurred around the same time when also other convenience store retailers (e.g. Family Mart) were experimenting with more compact stores (Meyer-Ohle 1995).

In its first experiments with the scaled-down convenience store (having a floor space of 36 m²) the company limited the merchandise assortments to precooked lunch packages and side dishes, soft drinks and magazines (Meyer-Ohle 1995). Today the company has in operation six Seven-Eleven Express stores in Japan. The size of these stores is onehalf or onethird the size of the chain's ordinary convenience store. According to the company the opening of

these stores has not any longer continued because the price of land and rent expenses have decreased and because nowadays customers prefer wider merchandise assortments than those of the Seven-Eleven Express stores.

Introducing new services - Combining new businesses

Most recently Seven-Eleven Japan has focused its service development efforts on three major business and service areas which the company has integrated to the convenience store concept: e-commerce (the launch of an online shopping service), meal delivery service (the introduction of the Seven-Meal Service) and banking service (the establishment of its own bank). With these service elements the company has broadened the original concept, moved the convenience store retailing to cover new fields of business at the same time when the core factor of the retail format concerned, namely the in-store customer convenience, has strengthened.

E-commerce. A general stream of development which can be considered as a major change in the utilization of the technology and IT-systems in the Japanese convenience retailing sector begin in the late 1990s. When previously the advanced IT-systems were used mainly for inventory control, now convenience store retail chains (as well as many new dotcom enterprises) began to develop and introduce a variety of services which were based on the possibilities brought by the new information technology and the emerging trends of e-commerce (e.g. Tsuji 2000: 332). The first applications in this field were presented by the convenience store chain Lawson in 1997 when it installed the first in-store Multimedia Kiosk Terminal (also called a multimedia terminal or an information terminal) targeted for its customers (Tsuji 2000: 334). Other convenience store companies have followed this development and for instance formed joint ventures to develop and introduce their own multimedia terminals. Among the reasons for this development is that the new technology has enabled them to enter into new businesses and service areas and thus broaden their existing range of services and to gain a new customer base (Tsuji 2000: 335).

Seven-Eleven Japan's entry into e-commerce took place in February 2000 when the company jointly with seven other companies (including e.g. Sony Co., Japan Travel Bureau, Inc.) founded a new subsidiary *7dream.com* (SEJ 2000: 10). Since July 2000 the *7dream.com* website has offered customers online (internet) shopping services and four months later, when the installation of the multimedia terminals in the stores in Tokyo began, customers have been able to access these new services by using the in-store multimedia terminals, the number of which today reaches about 1200 (SEJ 2000: 10, 2001b: 15). Seven-Eleven Japan's multimedia terminal is an in-store customer interface, a computer equipped with a touch-screen monitor, providing customers a self-service free access to the *7dream.com* website and its related services. The terminals allow only the use of selected services – they cannot be used by customers to freely browse the internet. Customers can use *7dream.com*'s services (e.g. place orders) either by using their personal computers, mobile phones or in-store multimedia terminals (e.g. SEJ 2000: 11, 2001a: 21).

According to the company the factors affecting the company's entry into new businesses (the launch of *7dream.com* and Seven-Meal Service) were related to the possibilities brought by the new ventures to expand the company's merchandise line-ups, customer base, ordering methods and order delivery methods (SEJ 2000b: 10). When developing these new services the company took also into consideration the potential synergies given by its existing systems (e.g. logistics, POS-system) to support the new retail operations. Therefore it is important to note that while other companies (e.g. Lawson; as well as many American and European retailers) took advantage of the possibilities concerning the use of internet when launching their e-commerce applications, Seven-Eleven Japan built a proprietary system which is not based on the internet but which relies on its own comprehensive IT-systems (The Economist 2001: 88).

Seven-Eleven Japan has been developing the service content for the *7dream.com* venture in cooperation with several service providers. Today the services offered include for instance the sales of books, downloading music, printing digital photographs and making hotel reservations, and there are also plans to introduce services like the sales of concert tickets through the multimedia terminals (SEJ 2001b: 15). With the travel related services the

Seven-Eleven stores now perform some of the functions of travel agencies. Customers (e.g. businessmen among whom this type of service is particularly popular) can use the in-store multimedia terminals to make hotel reservations, pay them in advance in the store and get a pre-paid coupon to be presented at the hotel. The 7dream.com operations have meant also a considerable broadening of the Seven-Eleven Japan's product offering, which now includes also high-value products like computers and watches. Customer can either choose the products to be delivered directly home or alternatively, as about 80 percent of the users of this service prefer to do, pick up the products from the nearest Seven-Eleven store (e.g. SEJ 2000: 10).

Meal delivery service. In August 2000 Seven-Eleven Japan and three other companies (including e.g. a provider of healthcare and nursing care support services) established *Seven-Meal Service Co., Ltd.* to offer meal delivery services (SEJ 2000: 11, 2001b: 15). This so-called "meals-on-wheels service" makes use of Seven-Eleven Japan's knowledge in fast food development and relies on the chain's existing resources, infrastructure (e.g. in the field of production, distribution and information networks) and the applications developed for the 7dream.com (e.g. the transaction and multiple ordering methods and delivery alternatives) (SEJ 2000: 11, 2001b: 15). Like the 7dream.com service, this new service was seen as a way to broaden the chain's customer base. Initially when launching this service the company had in mind specifically old people and their needs for prepared meals and related nursing services but today the service is targeted to also other customer segments, to those people who find daily meal preparation inconvenient or for some other reasons want to have prepared meals or just the ingredients to be delivered either home or to the nearest Seven-Eleven store (e.g. SEJ 2000: 10, 2001a: 21, 2001b: 15).

Banking services. Although some convenience store chains had introduced cashing services (operated with external or in-store cash dispensers) already in the mid 1980s, the first major stream of development in the banking related services began in the late 1980s when the payment acceptance services were launched by convenience store chains (including Seven-Eleven Japan) (e.g. Bernstein 1994: 18). Since then payment acceptance services have gained growing popularity especially during the early 1990s. It was not until the late 1990s

when the second stream of development emerged. Retailers, franchised chains and convenience stores in particular, became more interested in developing banking and financial transaction services at the same time when also small-scale retailers started to experiment with the e-cash technology applications (e.g. Ikeda 2000: 49; The Nikkei Weekly 1997). These developments were facilitated by the changing legislative environment (e.g. the deregulation in the field of banking services). Nowadays for instance Lawson's customers can apply for loans in their stores.

Also Seven-Eleven Japan followed the emerging trend of integrating financial services into retail business in order to enhance the payment acceptance and financial transaction related service functions of its stores and to raise the overall level of consumer convenience. But instead of developing and providing its new banking services solely in cooperation with any existing financial institutions Seven-Eleven Japan together with its parent company chose a different strategy, the establishment of an own bank, *IY Bank Co., Ltd.*, in April 2001, which meant the company's entry into the banking sector. The bank began its operations in the following month when also the first machines of the bank's ATM network were taken into use (e.g. SEJ 2001b: 16). The bank's ATMs will not only be installed in Seven-Eleven Japan's stores but also in other companies of the Ito-Yokado Group (e.g. SEJ 2000: 11). As a result of the service development Seven-Eleven Japan's stores can now offer their customers financial transaction services which range from the payment acceptance services to cash withdrawals, money transfers and deposits. In the future the bank is also considering launching e.g. internet banking services and other such services which will integrate retail operations (e.g. in the field of e-commerce) and financial services (SEJ 2000: 11, 2001b: 16).

Product mix and merchandising strategies - The increased importance of fast food

Today a typical Seven-Eleven Japan's convenience store carries about 2500 product items including both food and non-food products in a selling floor space of about 100 m². The product mix is minutely planned to meet the demand patterns by using the chain's IT-systems. This allows an individual store to take into account the regional, local and store

specific preferences in merchandising. About 80–90 percent of the products are similar in all stores of the chain while the remaining product items (typically about 10 percent) can be selected on the basis of local demand. Inventory control and the many daily product deliveries enable a store to alter its product mix even several times a day (e.g. Larke 1994: 149–152; Fukunaga 1999: 6). Thus the convenience store concept is fine-tuned to adapt and respond to the rapid daily changes in customer demand.

The products sold in the stores fall into four product categories: processed food, fast food, daily/fresh food and non-food. According to the company there have not been any particular stage-by-stage changes concerning the structure of Seven-Eleven Japan's product assortments. It is important to note however the long-term trend, the outcome of which is that nowadays fast food products are a strategically important product category for the chain. Since the late 1970s until the early 1990s the fast food products' share of the total sales has risen threefold, from about 7 percent to about 21 percent (Meyer-Ohle 1995). This has occurred at the same time when the share of non-food products has risen and the shares of both processed food (e.g. soft and alcoholic drinks, candies) and daily/fresh food (e.g. milk, bread, salad) have fallen (Meyer-Ohle 1995; SEJ 2001b: 19; Larke 1994: 152). Today fast food has a 30 percent share of sales and is the second best selling product category after processed food which accounts for about 31 percent of total sales (SEJ 2001b: 19). The growing strategic importance of fast food products means that Seven-Eleven Japan is not only competing with other convenience stores companies but also with fast food retailers. Thus the expansion of retail operations to the fast food business sector means also that the chain's position in the retail institutional structure is changing. At the same time however the focus of the chain's business operations, customer convenience, has been strengthened.

Japanese convenience store chains operate in a retail environment which is characterized by the shortening product life cycles. In order to keep up with customers' changing interests and preferences the chains are forced to launch new products and brands to quickly replace those items which do not sell well enough. This causes rapid changes, alterations and replacements within each of the product lines (e.g. SEJ 2001b: 14). According to one estimate, in one year about 50 to 65 percent of the product lines are replaced by faster

selling lines (Sparks 1994: 346). This aspect of product dynamics can be regarded as being among the key factors behind the short-term operational changes in Seven-Eleven Japan's convenience stores. It has also, together with the intensified competition at the product level in general, driven convenience store companies to invest in their own product development.

During the 1990s especially original food products (i.e. retailers' own products and brands) have become a significant competitive factor and one of the top priorities in convenience store chains' new product development programs (Fukunaga 1999: 4). Seven-Eleven Japan has introduced a range of original food products including for instance the "Oven-Fresh Bread" product line, (sales started in 1993), which the company has developed jointly with its strategic partners (e.g. SEJ 1999: 8, 2001a: 10–11, 2001b: 12–14; Ito-Yokado 1999a: 14). Seven-Eleven Japan has been regarded as a forerunner in the field of joint manufacturer-retailer product development in Japan (i.e. team merchandising with manufacturers) (Meyer-Ohle 2000: 128). The joint product development with leading brand manufacturers has been used to introduce for instance frozen food products, ice-cream and canned coffee (Meyer-Ohle 2000: 128; SEJ 2001b: 14). The canned coffee, for instance, has given the company a hold in the highly competitive soft drink markets which in Japan are typically dominated by manufacturers' brand-name products. Most recently the company has in its merchandising strategy emphasized the expansion of its original products lines, which today include for instance rice-based products, sandwiches, delicatessen items and confectionery (SEJ 2001a: 12, 2001b: 14).

The credibility of the food products sold in Seven-Eleven Japan's stores is based on high-quality and freshness. An important factor for quality is that the company's original food products do not contain any additives or preservatives. The quality requirement has been taken into account both at the system and operational levels. The quest for quality and freshness has led the company for instance to improve its distribution system in order to cut down the time between the production and the consumption. An important role in the safeguarding of the product quality has been given, however also to the product development process. It includes for instance taste tests, which are regularly participated by the company's board members. The final testing fields for the food products are the stores,

in which the customers' likes and dislikes are tracked item by item on the basis of sales, and in which also other possible customer feedback is conveyed back to the product development process by the store personnel.

The long-term trend concerning the non-food product's growing share of the total sales was noted earlier. The change has been however only moderate. Today non-food products account for slightly over a quarter of the shares of Seven-Eleven Japan's total sales (SEJ 2001b: 19). In the non-food category Seven-Eleven Japan, as well as other Japanese convenience store chains, carry on the one hand average fast-moving convenience products like magazines, cigarettes, cosmetics, soaps and stationary items, and on the other hand more special lifestyle related products (e.g. Larke 1994: 152; Washida 1997: 11; Fukunaga 1999: 4; SEJ 2001b). Examples of special lifestyle related products are current best-selling computer game softwares, CDs and other fashionable products which are trendy and popular among customers. As the nature of these kinds of products indicate, their life cycle depends on the prevailing trends. They are selected in order to seize the emerging trends and to sustain customer interests. Thus the product dynamics concerning also non-food products illustrate the short-term rapid changes occurring at the operational level.

Developing the distribution system

A detailed description of the developments concerning Seven-Eleven Japan's distribution system is beyond the scope of this case study. The direction of the development and some of the main features of the distribution system are however worth presenting here in order to show how the distribution innovations introduced by the company have been supporting the chain's retail operations and facilitating for instance the most recent institutional changes, the integration of the new businesses (e.g. Seven-Meal Service) to the convenience store concept. There have been frequent improvements in the company's distribution system since the 1970s (SEJ 2001a: 15). These have included for instance the reduction of the number of wholesalers, the reduction of the number of daily product deliveries to stores, the establishment of a network of 278 combined distribution centres, and the expansion of the combined (temperature controlled) distribution of the various food and non-food items (SEJ

2001a: 15, 18–19; Meyer-Ohle 2000: 125–126; Sparks 1994: 347–349). An important factor behind the development of a rationalized and effective distribution system had been the parallel process of IT-system development which has facilitated the many changes mentioned above.

The development of Seven-Eleven Japan's distribution system demonstrates also the long-term trend in Japanese retailing in general: the increasing channel power of large retail companies, which is one of the key aspects related to the formation of the modern and rational distribution channel structure. Meyer-Ohle (2000: 125–126) has pointed out how Seven-Eleven Japan's distribution structure has actually changed from being manufacturer-oriented to retail-oriented, when the company has been implementing changes in order to transform its distribution structure to suit its own needs. A key event indicating this major change took place in 1997 when Seven-Eleven Japan together with its 25 wholesalers established a new company for supplying the chain (with miscellaneous goods and sundries), and for taking care of all the logistics and commercial transactions involved (Meyer-Ohle 2000: 125).

Today the outcome of the aforementioned development is Seven-Eleven Japan's holistic system for daily order and production. This system incorporates the production, distribution and sales subsystems (e.g. SEJ 2001a: 11). The linkage between the subsystems is the company's IT-system (particularly the online ordering system). For instance the original food products are made daily in a network of 293 production plants around Japan according to the daily orders placed by individual stores. Products requiring specific invariable transportation and storage temperatures (–20, 5, 20 or ambient temperature) are delivered to the corresponding combined distribution centres. The number of daily product deliveries to a store varies according to the product groups (e.g. rice balls and prepared lunches are delivered three times a day and frozen items three to seven times a week) (SEJ 2001a: 18–19).

Outcome of the concept development: Extended customer convenience

Many new services introduced during the last decades and particularly the recent integration of new businesses into Seven-Eleven Japan's convenience store concept clearly show that the outcome of the concept development process is a retail format which provides "extended customer convenience". As was seen earlier it is a combined result of many factors or retail elements. The core of the extended customer convenience consists of Seven-Eleven Japan's product and service mix, the easy access to store locations and the 24 hours opening time. These factors which enable easy and quick shopping and the use of additional services, go well with the shopping behaviour and lifestyles of Japanese consumers living in the densely populated urban areas. The core is surrounded by the company's comprehensive retail system, the development of which has been illustrated with the many parallel processes earlier.

Although convenience stores are in general patronized by people living, working or studying in close proximity to the stores, convenience stores have gained increased popularity among young people, particularly among single men, whose lifestyles, consumption patterns and product preferences are in line with the products and services provided by convenience stores (SEJ 2001a: 23; also Washida 1997). This can be seen also in Seven-Eleven Japan's customer structure: the biggest customer group is single men (38 %), followed by married men (28 %), married women (18 %) and single women (16 %) (SEJ 2001a: 23). Some authors have pointed out how Japanese convenience stores have actually become "an extension of the refrigerator" or "a substitute kitchen" particularly for the young urban consumers (Washida 1997: 12; Fukunaga 1999: 4). These are not only powerful metaphors of the extended customer convenience but also apparent manifestations of social change involved. It can be argued that Seven-Eleven Japan, as a leading convenience store chain in Japan, has been able to adapt and respond to the general processes of social change. One of these is for instance the general change from the homogeneous societal values towards greater individuality, which has made possible the expression of more individualistic lifestyles through consumption (e.g. Sekizawa 1997: 8). Seven-Eleven Japan has for its part both facilitated this change and benefited from it.

Seven-Eleven Japan's entry into banking, e-commerce and meal delivery service sectors has not only meant that the new service elements have been added to the original concept to further enhance the customer convenience but also that the potential customer base for the chain has been broadened. This development has also had other broader consequences. The introduction of the meal delivery service meant also that the company actually is broadening its business operations into the field of "community-oriented services" (SEJ 2000: 11). With these services the company is seeking new customers and trying to seize new trends emerging in the retail environment. In general this kind of integration of retailing and community services indicate Japanese retailers' growing interest in social responsiveness (e.g. Goldman 1992: 28). It has been argued that the further development of this kind of services might eventually transform Japanese convenience stores into "neighbourhood centres" or "community life stations" with a range of services and functions which traditionally have not been provided by retailers but by other institutions or social organizations (e.g. Washida 1997: 13; Chiba 1999: 10).

Coping with the accelerating retail market dynamics

Seven-Eleven Japan has reached its leading position in the convenience store retailing business essentially by utilizing the economies of scale and replication, the foremost advantages brought about by chain store and franchising operations. Much of the company's growth can also be attributed to the ability to cope with and adapt to various changes in the Japanese retail markets which are, in general, highly sensitive to fluctuations in the economic conditions and consumer demand. Another central characteristic of the retail market dynamics is the intensified retail competition. Companies are not only striving to achieve differential advantages by for instance creating unique retail formats (i.e. competition at the retail format level) but also to a greater extent differentiating themselves with the means of time-based competition. This latter type of competition can be regarded as one of the major factors causing the accelerating speed of change at the product and merchandise assortment level (e.g. Stalk & Webber 1993; Herbig 1995: 146–148). Retail innovations like the additional services offered by convenience stores are also quickly imitated by other companies.

The scale of Seven-Eleven Japan's business operations and the available financial resources have enabled it to develop its comprehensive IT-system. By continuously refining the systems, the company's ability to monitor and respond to more and more rapid short-term changes in customer demand has been improved. By following its company philosophy Seven-Eleven Japan tries to keep up with and respond to the changing customer demand (e.g. Sparks 1994: 339; Reinmoeller 2002: 42). This means that the focus and the emphasis in its operations are on the imminent changes, which cannot be predicted on the basis of prior long-term trends. From the managerial behaviour point of view the decision-making in the rapidly changing retail markets where even a snapshot of yesterday's customer preferences does not necessarily predict those of tomorrow must be sensitive to the short-term changes. This concerns both the top corporate management level and the operational level decision-making. For instance, according to the company, the Chairman and CEO Mr. Suzuki personally prefers short-term planning over long-term and mid-term strategic plans. The company's quest for fine-tuning its retail operations to cope with the more and more rapid short-term changes is also clearly seen in the company's test-verification method applied in the ordering system (e.g. Ogawa 2000: 266–268; Sparks 1994: 346). The central idea of this method is that a prediction is based on the hypothesis of customer demand (i.e. the forthcoming sales) made by store employees when placing daily orders. If the hypothesis proves not to be accurate, needed adjustments are made on the basis of the verified sales.

4.5.6. Conclusions

The case, describing the evolution and adaptation of the Seven-Eleven convenience store retail format in the Japanese retailing context, was conducted in order to understand the retail change phenomenon with the various institutional and operational changes involved. The evolution and adaptation of the retail format concerned was described chronologically by focusing on the major changes, events and illustrative issues concerning the long-term and short-term changes.

In the beginning of the case the concept's origin and its long-term evolution in the US were described to show how the retail format was influenced by and based on the American

model, business philosophy and expertise on running chain store and franchising operations. At the time of introduction the convenience store was a novelty in Japan. In the context of US retailing it was however an established retail institution, the outcome of nearly 50 years' long evolution and concept development. From the retail innovation viewpoint the original American 7-Eleven retail format, was a dominant design, on which the format's further evolution in Japan was based. The retail format was not transformed from one retail system to another in its original form: its many aspects had to be adapted to suit the unique features of the Japanese retailing context. Since then its evolution and adaptation has been particularly characterized by the many incremental improvements, the integration of new retail elements, and the development of comprehensive IT-systems.

The evolution and adaptation of the Seven-Eleven convenience store in Japan was presented chronologically in three stages. The first stage (1970s) covered a decade when the retail format was introduced in Japan and the rapid growth and expansion of the chain began. During the second stage (1980s) the company, activated by its Comprehensive Operation Reform Project, started to further improve and refine its existing IT-system, and introduced many renewals concerning its POS-systems. At the same time the service offerings of the stores were widened to cover also for instance payment acceptance services. During the third stage (1990s–2001) the company entered into new fields of businesses, which meant that new retail elements (e-commerce, meal delivery, banking) were integrated into the convenience store concept.

The issues raised in the case description illustrated both the long-term institutional changes and the short-term operational changes. First of all, the nature of Seven-Eleven's long-term evolution, with the many improvements made and the various retail elements combined, bears a great similarity with the so-called process innovation or with the continual, gradual improvement approach (*kaizen*) preferred by Japanese companies (e.g. Shimaguchi 1993: 178; Herbig 1995: 108–115; Sparks 1994: 349). The case showed how institutional change was related to the long-term trend concerning the growing strategic importance of the sales of fast food products. The outcome of the trend has been that the retail format is not only positioned in the convenience retailing sector but also in the fast food retail sector. The

company's entries into banking, e-commerce and meal delivery business sectors are the latest manifestations of changes at the institutional level. During its long-term evolution the retail format has not only institutionalized in the context of Japanese retailing, but also become a representation of a global standard in convenience store retailing in general.

Also other parallel development processes were identified. The first of these was the long-term process related to the development of the company's comprehensive IT-systems. At the operational level this process has meant that the company has been fine-tuning its ability to cope with the accelerating retail market dynamics. Manifestations of this process were the many new generations of the POS-systems introduced. Another parallel long-term process identified was the service development process, which began with the introduction of the payment acceptance services and continued with the combination of new retail elements (e-commerce, meal delivery, banking). The combination of new retail elements, both products and services, has strengthened the core of the retail format concerned.

4.6. Cross-case analysis

In the cross-case analysis part of the empirical research the phenomenon, the evolution and adaptation of the two retail formats, is examined from the viewpoint of the similarities and differences concerning the key patterns (i.e. the dynamic outputs like the various changes, processes and the stages of the evolution and adaptation of a retail format) that emerged from the cases. The richness of the two real-life phenomena spanning over several decades was subtracted into two concise case descriptions, which pointed out the various events, years and periods of time in the company history. By following the chosen research strategy and the embedded case study design formed in this study, both the long-term institutional and the short-term operational changes were described in the cases. In the cases the long history of the retail formats was described chronologically by identifying the early, middle and later stages in their developments.

The cross-case analysis requires further data reduction. This means that here in the cross-case analysis stage of the empirical research process the major concern is not the entire richness of the phenomena but only the key patterns that emerged from the two cases. These

patterns emerge above the detailed chronological description. Although the cross-case analysis involves the examination of the similarities and differences observed (with regard to the key patterns), in this study the cross-case analysis does not however include any explicit comparisons of the retail systems (section 4.2.3.). As the empirical findings (the key patterns) are examined in the fifth chapter against the theoretical assumptions of the dynamic reciprocal interaction model put forward in the third chapter, the data reduction done in the cross-case analysis stage of this study facilitates the move from the substantive domain back to the conceptual domain.

The case descriptions showed that although, due to the differences in the managerial behaviour and context, the retail change phenomenon does not occur in a uniform way in every context, there are however similarities in the patterns identified. In spite of the different starting points of the retail format, and the unique evolutionary path followed during the course of the evolution, the evolution and adaptation of the two retail formats converge with each other with regard to three major patterns. These are: first, the overall nature and direction of the retail format change (including the stages of the evolution and adaptation, the timing of the transition from one stage to another, and the time-span of the stages), second, the quest for the economies of scale and replication, and third, the combining retail elements. Next these broad dynamic issues are examined in more detail. The analysis proceeds from general patterns towards specific patterns.

Nature and direction of retail format change

The first general pattern emerging from both cases is that the long-term evolution and adaptation of the retail formats has followed a sequence of four stages: distribution - concepts - managed processes - systems (Figure 12). From the retail change viewpoint this pattern means the retail format's transition from plain distribution, to concept development, then to process development and finally to system development. The first stage, termed here as distribution refers to the period prior to the explicit concept development driven by the quest for the economies of scale and replication. In this stage a retail format is mainly dealing with the basic retail functions, distribution and sales of goods. A retail format moves

to the concept development stage when its operations are standardized and the systematic combination of new retail elements (products and services) to the original concept begins. Now economies of scale and replication are achieved by running a network of standardized retail formats and applying chain management practices. Concept development continues. The transition to the next stage, process development, occurs when a number of development processes are launched to improve the retail operations and the supporting systems. The many continuous development processes lead to the formation of a holistic retail system (at the company level) incorporating several retail subsystems (like production, distribution and sales) and to the gradual move from process-oriented development to system-oriented development. The system development stage is characterized by management's improved ability to monitor and to cope with the changes in the retail market. Retail operations are still based on utilizing the economies of scale and replication but from now on also increasingly on the benefits gained by integrating retail subsystems to form a holistic corporate level system. Being now a part of the holistic system a retail format has become a platform on which the company's exploration and launch of new business operations (and services) are based. With the new business operations the company is further strengthening the core of the retail operations (customer convenience) and expanding the concept with new retail elements. The system development facilitates, increasingly, also the exploitation of the economies of scope and the launch of new business operations.

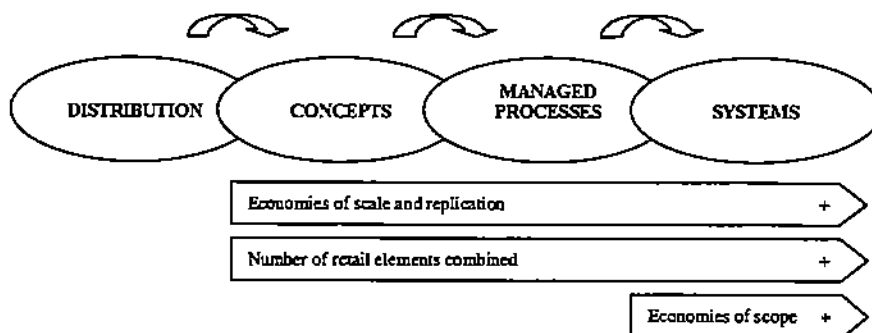


Figure 12. Nature and direction of retail format change. The stages of evolution and adaptation: the transition from plain distribution of goods to concept development, to managed process development and to system development.

Inherent in the pattern described above is that retail format change involves a long-term change from simple systems to more elaborate systems. Manifestations of this are the increased number of retail elements combined to the retail format during the course of its evolution and the many parallel processes which have led to the formation of comprehensive systems for the chain store operations. From the managerial behaviour viewpoint this change towards more elaborate systems has meant an improved ability to cope with and respond to the rapid short-term changes at the operational level (operational adaptation). The cases show how the operational context of the retail formats are characterized by the intensifying rate of change at the operational level (operational dynamics).

The general pattern does not support any cyclical view of change. Rather than repetitive the pattern is cumulative (e.g. the change towards more elaborate systems). Another related characteristic of the pattern is that it cannot be depicted with stage or flowchart models in which the transitions from one stage to another are exactly defined. Thus the pattern can be understood as a sequence of four partially overlapping stages (distribution - concepts - managed processes - systems), each stage of which is characterized by the particular kind of development, as described earlier. Although both cases demonstrate that retail format change has followed that sequence, the cases show however that there were differences concerning the time when the transition from one stage to another took place (timing) and the time-span of the stages (periods of time). These issues are examined next stage by stage.

1. Distribution. The long-term institutional evolution of the two retail formats began in the early decades of the 20th century. For the R-Kiosk chain this distribution stage covers a period from 1911 to 1958, when the nationwide network of kiosks began to operate under the same store name: R-Kiosk. During this period the network of sales outlets for the distribution of newspapers and literature had become a leading chain in the Finnish kiosk trade. For the Seven-Eleven convenience store format the early evolution and institutionalization in the context of US retailing took place during a period of 21 years, from 1927 until 1946, when the chain's retail operations were standardized, and the 7-Eleven store concept was launched. For the Seven-Eleven chain this period meant above all the move from the original ice distribution business into the convenience store retailing

sector. In addition to the aforementioned institutional changes both cases show also operational changes during this period. There were changes in the merchandise assortments. Also many operational practices that characterize the chains' retail operations began to take shape. In the end of this stage the two unique evolutionary paths which began in a dissimilar retail context began to show the first signs of convergence.

2. *Concepts.* The R-Kiosk chain moved to the concept development stage in the late 1950s. During the period 1958–1987 the standardized R-Kiosk concept, a well-known national brand in the kiosk trade, was created. Since the late 1980s the emphasis in the concept development was put on transforming the kiosk concept into a convenience store concept (the process development stage). While the R-Kiosk chain's concept development took place in an uninterrupted way within one retail system, the Seven-Eleven chain moved to the concept development stage in the US retail system (in 1946) and then after the concept was introduced in Japan in 1974 the concept development continued when the original model had to be adapted to suit the institutional and operational context of the Japanese retail system (concept adaptation). The process of institutionalization began. The Seven-Eleven Japan convenience stores were diverging from the original US retail format.

The concept development brought about institutional and operational changes. New retail elements (products and services) were introduced and integrated as a part of the standardized concepts. The traditional window-counter R-Kiosks were little by little replaced by indoor/walk-in type of kiosks which began to bear resemblance to small retail stores. During the 1980s both retail formats were adapting the concept to the emerging trends in the retail environment. For the R-Kiosk chain this concept adaptation meant in particular the widening of the merchandise assortments within the limits of the legislation. For the Seven-Eleven Japan stores the concept adaptation involved first the creation of an efficient store opening strategy for the chain's expansion, and then the introduction of innovative food products and new services. Later the explicit concept development produced, for both chains, also divergences from their mainstream development (Super R stores, Seven-Eleven Express stores).

3. *Managed processes.* The evolution of the two retail formats showed that there has been a close linkage between the concept development, the many parallel development processes and a proactive type of decision-making. Thus it can be argued that in the process development stage the managerial behaviour is in general characterized by the retail decision-makers' efforts to guide the direction of the retail format change by explicitly managing the many processes involved (i.e. process management). From the viewpoint of institutional and operational adaptation this stage is characterized by process adaptation. Seven-Eleven Japan moved to the process development stage in 1982 when the Comprehensive Operation Reform Project launched by the chain's parent company triggered the long-term, continuous and systematic IT-system development process. Also another stream of development, the introduction of new services, began in the early 1980s. Since the late 1990s the Seven-Eleven concept was further broadened with new retail elements when the company entered into several new businesses and service areas. R-Kiosk chain's transition to the process development stage began in 1987, when the parent company made far-reaching decisions to introduce franchising operations and to develop a convenience store format and a POS-system for the chain. In the 1990s the concept development continued as an explicit managed process with four waves of transformation. This rapid process of retail format change involved the transformation of the indoor/walk-in type of kiosks first to development units and then later to minimarkets. During the 1990s there were also many operational changes related to for instance the development of the supporting IT-systems, the widening of the product and service mix, and the introduction of the team management system.

4. *Systems.* The evolution of both the retail formats showed that the transition from the process development stage to the system development stage has taken place gradually. The many parallel development processes pointed out above have facilitated the gradual long-term change towards the more elaborate systems. The development of refined IT-systems for instance has improved the chain management's ability to monitor, and to respond to, the changes in the retail environment. Seven-Eleven Japan has reached the system development stage by continuously refining and upgrading its earlier POS-systems with new retail technologies since the late 1970s. The most recent information system introduced in 1997 is

the fifth successive system generation. The outcome of the system development is the company's holistic corporate level system in which the subsystems of production, distribution and sales are integrated with the IT-systems. In spite of the differences concerning for instance the scale of the chains' business operations and the IT-systems used, also the evolution of the R-Kiosk chain shows patterns of system development, which imply that also R-Kiosk has approached this stage. A manifestation of this was for instance the systemization of the IT-development process in the 1990s which enabled the rapid implementation of the chain's POS-system and reporting systems.

Another pattern of system development which emerged from both cases is related to the integration of new retail elements especially services to the retail format. Seven-Eleven Japan's launch of banking services (provided by the IY Bank Co., Ltd.) meant the creation and integration of a new retail subsystem as a part of the convenience store operations. Both cases show also how the launch of new services (and the business operations needed in providing them), such as Seven-Eleven Japan's meal delivery service and R-Kiosk chain's pick-up point service, has been developed jointly with a number of cooperative partners. From the managerial behaviour viewpoint this kind of joint system development involves also substantial system adaptation when the retail chain's operational system is linked to those of the cooperative partners, and when the whole operational system is embedded in the retail environment.

Quest for economies of scale and replication

As it was maintained earlier the exploitation of economies of scale and replication begins in the concept development stage when a standardized retail concept with chain management practices is formed and the number of sales outlets based on the concept increases. The retail format's transition towards a more elaborate system brought about also increased possibilities to exploit these advantages. Two particular issues concerning the economies of scale and replication can be pointed out. The first issue is related to the way how the retail decision-makers' quest for economies of scale and replication guides the retail format change in the concepts, managed processes and systems stages. It was indicated in both cases that decision-makers are continuously exploring and testing a great number of retail

elements (products and services) which could be combined and replicated, and which could strengthen the core of the retail format's business operations (i.e. customer convenience, fastness and speed). However only those elements which prove to be profitable remain part of the concept and are further replicated.

The second issue emerging from the cases is that there seem to be particular periods of time when the retail decision-makers' quest for economies of scale and replication can be regarded as one of the underlying managerial behaviour related factors affecting the rate of retail format change. In relatively stable retail environmental conditions a company can exploit the economies of scale and replication and maintain its differential advantage, much longer with its existing combination of retail mix variables and retail elements, and with its existing retail subsystems, than in relatively dynamic retail environmental conditions, in which new improvements (concerning e.g. the aforementioned factors) must be introduced within short intervals in order to raise the level of economies of scale and replication. The evolution of the R-Kiosk chain showed that after the standardized R-Kiosk concept was introduced in the late 1950s, the economies of scale and replication related to it were fully exploited by the company until the late 1980s when the company began to explore the possibilities to exploit the economies of scale and replication by launching a managed process of retail transformation. Thus the relatively stable period from the late 1950s until the late 1980s was followed by a period of intensified retail format change during the 1990s. Also the evolution of Seven-Eleven Japan showed how the company's quest for exploiting economies of scale and replication has led the company to constantly improve in particular its POS-systems since the early 1980s in order to respond to and to cope with the changes in the retail markets which are characterized by the intensifying rate of change, severe competition between the convenience store chains, rapid imitation of existing retail innovations, and above all more and more rapid short-term changes at the operational level.

Combining retail elements

The earlier discussion of the nature and direction of the retail format change pointed out that the explicit combination of retail elements begins in the concept development stage and that the number of the elements increases when the retail format evolves towards more elaborate

systems. As a result of this the retail format is little by little filled with such elements which strengthen the core of its retail operations (i.e. the extended customer convenience). Both cases showed also patterns which indicate how the combination of service elements and product elements is related to the changes at the institutional and operational level. The patterns and issues concerning the combination of various service and product elements are summarized next.

Service elements. The R-Kiosk chain's development towards a multiple service retail chain began in the early 1980s when the chain seized the emerging trend in the retail environment and launched the video rental service. The combination of service elements started at the same time when there was an institutional change from window-counter kiosks into indoor/walk-in outlets. The introduction of new services, such as banking (ATMs) and postal services, continued also in the 1990s when R-Kiosks were transformed into convenience stores. Later there was also for instance the full-scale launch of pick-up point services. Seven-Eleven Japan began to integrate new service elements to its convenience store concept in the late 1970s. For instance postal package handling and copying services were introduced in the early 1980s. The range of financial transaction services was widened in the late 1980s. The company's entry into the field of e-commerce (7dream.com) in 2000 meant that a convenience store became a platform for online shopping services, travel related services, and meal delivery services. The integration of banking services (ATMs) into the convenience store concept began in 2001. Both cases show how the combination of service elements to the retail format has been broadening the scope of the chains' business operations, and thus enabled the chains to exploit increasingly also the economies of scope.

Product elements. From the beginning of the concept development stage the R-Kiosk chain has been testing and experimenting with new fast-moving products. The introduction of indoor/walk-in outlets in the mid 1980s facilitated not only service additions mentioned earlier but also the gradual widening of merchandise assortments. In the 1990s, during the period of managed process of retail transformation the introduction of new product lines was even more closely linked to the concept development and the institutional changes brought about by it. The sale of food products for instance was started first in the

development units in the mid 1990s and later on a larger scale in the minimarket type of R-Kiosks. In addition to food and other convenience shopping products the chain has also been strengthening one of its most important pleasure shopping elements: gaming products. During the course of its evolution Seven-Eleven Japan has been more involved with combining new service elements than new product elements. Although the structure of the retail format's product assortments has not changed significantly since the 1970s, the strategic importance of fast food products has been steadily increasing. This long-term trend has resulted also in institutional changes as the chain's competitive position in the retail market has been moving closer to that of fast food retailers. The case showed also that the rate of change at the product level has been accelerating. In order to be able to respond to the more rapid changes in customer demand the chain is constantly testing and introducing new products and thus making changes within the product lines. Therefore the chain has also been carrying out joint product development with manufacturers when launching new food products.

4.7. Conclusions

The aim of the empirical research was to describe the retail change phenomenon and to produce an understanding of the evolution and adaptation of the retail format in a dynamic retail context. This chapter was concerned with first the methodological domain and then the substantive domain. In the beginning of this chapter it was maintained that the selection of the qualitative research approach, case research method and descriptive analysis was supported by the exploratory and theory building nature of this study. By taking into account the choices made earlier within the conceptual domain (chapter 3.) a concept-driven design (an embedded case study design with two cases) was formed for the empirical analysis. The design was implemented by applying it to the substantive domain. The evolution and adaptation of two retail formats (R-Kiosk and Seven-Eleven Japan) in their natural contextual settings were described by noting the various changes at the institutional and operational level.

Data reduction was done both in the within-case and cross-case analysis stages of the case research. First the long-term institutional changes and the short-term operational changes concerning each of the retail formats were described chronologically by focusing on the key years, events and periods of time in the company history. Then in the cross-case analysis stage the key patterns that emerged from the cases were analysed and summarized. It was shown that there were both differences and similarities in the evolution and adaptation of the two retail formats and that the evolutionary paths of the two retail formats show patterns of convergence. This was seen above in the general pattern concerning the nature and direction of the retail format change. The long-term evolution and adaptation of the retail format has followed the sequence of four stages (distribution, concepts, managed processes and systems). The cases implied that from the viewpoint of institutional and operational adaptation each stage was characterized by certain types of adaptation and managerial behaviour.

It was shown that when the retail formats over a long period of time followed the aforementioned sequence of four stages, they were also at the same time changing from simple systems to more elaborate systems. The cases illustrated also how the exploitation of economies of scale and replication and the combination of new retail elements begins at the concept development stage. The combination of new services and products was done by seizing the emerging trends in the retail environment. The integration of new retail elements brought about a variety of institutional changes such as a retail format's long-term change from one business sector to another. At the same time the new elements were strengthening the core of the retail format's business operations. It was shown also how the various processes (e.g. concerning the IT-system development) have not only resulted in many changes at the operational level but also improved retail decision-makers' ability to respond and to cope with the accelerating rate of change at the operational level.

In the next chapter the research process proceeds again to the conceptual domain, when the key patterns identified in the empirical research are examined against the conceptual system proposed in this study.

5. ELABORATING THE CONCEPTUAL SYSTEM

In this chapter the empirical findings (the key patterns) are used in the elaboration of the approach and view of change proposed in this study. The analysis focuses on the conceptual domain, within which the analysis is carried out first at the theory level, then at the system level and finally at the paradigm level. The chapter begins with the examination of the conceptual model in the light of the empirical findings (section 5.1.). Then the conceptual analysis focuses on the system related dynamics, and sums up first the systemic and then the paradigmatic issues involved (section 5.2.). The scope and limitations of the approach and the view of change proposed are analysed by taking into account the various criteria for theory building (section 5.3.). Finally the paradigmatic issues related to the use and application of the approach and the view of change as a basis of theory development for relativistic middle-range theories are presented (section 5.4.).

5.1. Conceptual model in the light of the patterns observed in the empirical research

The main assumption of the conceptual model put forward in this study was that a retail change is produced by the dynamic reciprocal interaction between retail format, managerial behaviour and context, occurring simultaneously both at the institutional and operational level (section 3.4.). The institutional and operational dynamics conceptualized by the model were examined empirically in order to provide empirical understanding of the retail change phenomenon. The patterns emerging from the two case descriptions were presented in the cross-case analysis part of the study (section 4.6.) and analysed with regard to the general nature and direction of the retail format change (Figure 12). In this section the research process and the conceptual analysis returns to discuss the assumptions presented in the conceptual model. This means that the main assumptions of the model are selected for the conceptual analysis and examined in the light of the patterns observed in the case research.

The conceptual analysis done in this section is in particular guided by the third objective of this study. The aim of the conceptual analysis is to provide an understanding of how the

dynamic interaction and adaptation between the two levels produce retail change. In this section the conceptual analysis is limited to the issues concerning the institutional and operational levels, which were also the main levels of analysis both in the conceptual model and in the empirical research. Because the direction of the research process in this chapter is from the theory level to the system and paradigm level (i.e. towards higher levels of abstraction) many conceptual issues (at lower levels of abstraction) concerning for instance the particular elements of the model (e.g. the elaboration of the model by specifying or defining the elements of the model in a more detailed way) remain out of the scope of the conceptual analysis. This limitation serves also the purpose of data reduction: the analysis is not carried out against the entire richness of details described in the cases, but is limited only to the key patterns observed in the cross-case analysis.

The empirical research showed the close interrelatedness of the three elements (retail format, managerial behaviour and context) in producing retail change. In the dynamic reciprocal interaction model this interrelatedness is assumed to take place through three different types of relations (section 3.4.2.). The first type of relation refers to the connections between the three elements at the same level of abstraction. In the conceptual model these relations are depicted with two triangles placed within each other. The outer triangle refers to the institutional changes and adaptation, and the inner triangle to the operational changes and adaptation. The second type of relation refers to the connection between the two levels of abstraction within the same element. As these relations connect the two levels together, they are important from the viewpoint of the interaction and the combined effects of the levels (i.e. the institutional and operational subsystems of the model). The connection between the levels means that changes occurring at one level have an effect on the other level. The third type of relation is central from the viewpoint of the system related dynamics (section 5.2.) as it refers to the single holistic interacting system formed by the relations both between the three elements and between the two levels of abstraction.

It was maintained earlier in this study (section 3.4.3.) that by examining the relations between the elements it is possible to identify stages of specific periods of time when a particular relation or change in a given element can be regarded as the most critical

determinant for the retail change. Here, this is done by taking into account both the first and second type of relations discussed above and the key patterns (the sequence of stages) observed in the empirical research. First, since the conceptual analysis in this section is limited to the first and second type of relations, the main focus here is put on the three dynamic issues: (1) changes at the institutional level, (2) changes at the operational level and finally (3) the combined effect of the institutional and operational changes. Second, as the analysis is also done with regard to the sequence of stages (distribution, concepts, managed processes, systems) the objective is to find what particular stages are dominated by the three aforementioned dynamic issues.

The patterns observed in the empirical research clearly give support to the relativistic view of change proposed in this study. Although the evolution and adaptation of the two retail formats appear to follow the same sequence of stages, the institutional and operational dynamics manifest themselves in different ways. This is due to the dependence of the retail format change on the managerial behaviour and on the context in which it is occurring.

The main focus here is on those changes which took place after both retail formats had moved from the distribution stage to the concepts stage. For the R-Kiosk chain this means changes since the late 1950s. In the case of Seven-Eleven Japan this means changes since the beginning of the concept development in the context of the Japanese retail system. The depiction and a summarized characterization of the most dominant types of changes (institutional and/or operational changes) at the concepts, managed processes and systems stages are presented in Appendix 5. The details of the patterns referred to in the following analysis are presented in the cross-case analysis (section 4.6.), in the case descriptions (sections 4.4. and 4.5.) and in Appendices 3 and 4.

Institutional changes

It was assumed in the conceptual model that typically institutional changes take place slowly over a long period of time. Institutional changes manifest themselves most clearly in the long-term changes concerning the retail format's position in the retail institutional structure,

or in the retail format's changes from one business sector to another. The model proposes that the institutional changes do not occur in isolation but are closely linked with the operational changes. Besides slow evolutionary type of changes, institutional changes can also be revolutionary (i.e. sudden and discontinuous), and occur at a faster rate of change. Although no pattern of a purely revolutionary type of institutional changes was observed in the empirical research, the empirical findings support the conceptual model's assertion that retail decision-makers (the managerial behaviour element) can affect the rate of institutional change, by accelerating it. The empirical research implies that the accelerated rate of change at the institutional level is related to the accelerated rate of change at the operational level. In particular the accelerated changes at the operational level result also more rapid changes at the institutional level. This pattern demonstrates the effects of operational changes and adaptation on the institutional level. In the conceptual model these effects are assumed to take place through the second type of relations (Figure 10).

The period before the explicit concept development and the introduction of the R-Kiosk brand (distribution stage) was mainly characterized by the slow evolutionary type of institutional changes. The window-counter type of kiosk became an institutionalized and established retail format. Since then there have been long-term institutional changes, the result of which the R-Kiosk chain has moved from the kiosk trade sector to the convenience store retail sector. The period of accelerated change at the institutional level took place in the managed processes stage. This happened at the same time when the chain management implemented also rapid changes at the operational level. The institutional changes, and the retail decision-makers' central role in affecting them manifested themselves in the four waves of retail transformation.

The origin, the early evolution and concept development of the Seven-Eleven convenience stores in the context of the US retail system was noted in case 2. When introduced in Japan (concepts stage) the retail format became rapidly institutionalized in its new context. The concepts stage is most clearly characterized by the concept adaptation, which was needed to adapt the retail format to suit the institutional and operational context. This adaptation (explicit decision-making) resulted in an accelerating rate of change both at the institutional

and operational levels. The managed processes stage was mainly dominated by the operational changes (e.g. the parallel development processes). The operational changes had however at the same time also more and more effects on the institutional level. In the systems stage the accelerating changes at the operational level finally resulted in also accelerated changes at the institutional level. The system development facilitated the launch of new business operations and the combination of new retail elements which were not only further broadening the scope of the chain's retail operations but also changing the chain's position in the retail markets. The operational changes – the growing strategic importance of fast food products – have over a long period of time resulted also changes at the institutional level, the manifestation of which is the chain's gradual positioning closer to fast food retailers.

Operational changes

It was assumed in the conceptual model that the short-term operational changes occur more rapidly than the slow long-term institutional changes. Although the operational changes are produced by the dynamic reciprocal interaction between the three elements, the operational changes most clearly demonstrate that the managerial behaviour element (i.e. the active decision-making by retail managers) has a central role in producing retail change. The patterns observed in the empirical research showed that the operational changes are not only produced by active management, control and timing of retail operations and retail mix variables but also by the retail decision-makers' adaptive behaviour (either reactive or proactive) related to coping with changes in the retail environment. The accelerating effect of operational changes on the institutional level was noted in the empirical research and discussed earlier with regard to the conceptual model. The empirical research showed also patterns exemplifying the opposite effects, the direction of which were from the institutional level to the operational level (Figure 9). It was shown that the removal of environmental constraints such as retail legislation, facilitated the implementation of operational changes, and that the many changes made at the operational level were done in order to respond to the emerging trends in the retail environment (at the institutional level). Yet another key pattern was observed in the empirical research: operational changes such as the combination

of new retail elements have been strengthening the core of retail formats business operations at the same time as they have been providing new possibilities to exploit the economies of scale and replication, and later increasingly also the economies of scope.

The R-Kiosk case showed how some patterns of operational changes (e.g. the initial widening of the merchandise assortments) took place already in the distribution stage. The first period of the accelerating rate of change at the operational level occurred however when the retail format moved to the concepts stage. The changes at the operational level (in particular concerning merchandising) began to have also increasing effects on the institutional level at the time when the indoor/walk-in kiosks were introduced. In the managed processes stage the rate of operational changes accelerates again. Manifestations of operational changes are for instance the launch of the franchising system, the introduction of new products and services, and the IT-development. As now the many parallel development processes were closely related to explicit concept development, there were also major changes at the institutional level when the retail format was transformed into convenience stores. In the systems stage, there are still rapid changes at the operational level, although the rate of change is somewhat slower than in the managed processes stage. Concept development continues and results in deviations (e.g. the pilot projects) which provide new possibilities to achieve economies of scale and replication. These changes nor the effects of the system development are however not yet powerful enough to trigger also major changes (e.g. the replication of concepts, the launch of new combined concepts) at the institutional level.

In the concepts stage the Seven-Eleven convenience store concept was adapted to suit the operational characteristics of its new retail context. This operational adaptation caused not only an accelerating rate of change at the operational level but also at the institutional level which can be seen in the rapid institutionalization of the new retail format as a part of the Japanese retail structure. The managed processes stage was dominated by operational changes. The accelerated rate of change at the operational level was the result of continuous refinement of the IT-systems, and the introduction of new service elements. The IT-system development facilitated the chain to monitor and to respond to even more rapid changes in

the operational environment. In the systems stage the accelerating rate of change at the operational level produces changes also at the institutional level. This occurs when for instance the new service elements related to the chain's newly launched business operations are replicated gradually throughout the chain of outlets and they thus become an integral part of the standardized retail format.

Combined effect of the institutional and operational changes

According to the conceptual model the second type of relations (i.e. the relations between the levels within a given element) act as paths through which the changes in a given element are reflected from one level to another. It is assumed in the model that in addition to the multiple changes and effects between the three elements there is also a combined effect between the two levels of abstraction, and that this combined effect of the institutional and operational changes affects the rate and the nature of retail change in a given retail system. The empirical findings demonstrated how the accelerated rate of change at the operational level triggered also the accelerated rate of change at the institutional level. The empirical research showed also that the periods which were dominated by both institutional and operational changes were at the same time periods when the overall rate of change was relatively high not only at the corporate level (i.e. related to the particular retail format) but also at the retail system level (i.e. at the level of the retail system of the given country) (section 5.2.). The empirical findings imply also that the combined effect manifests itself in different ways in the different stages of the retail format change.

Regarding the R-Kiosk chain the period of accelerating rate of change both at the institutional and operational level took place in the managed processes stage. During this relatively short period of time the retail format encountered the most rapid and radical changes in its history, when the retail format was transformed, through several waves, from window-counter kiosks into convenience stores, resulting at the same time in a major change in the position of the retail format in the Finnish retail system. These changes took place at the same time when there were also other parallel streams of development concerning convenience store retailing. The combined effect of institutional and operational changes seems also to have sped up the retail format's gradual transition to the systems stage.

In the Seven-Eleven Japan case the combined effect of the institutional and operational changes was seen in two different stages of the retail format change. In the concepts stage the combined effect manifested itself in the very rapid institutionalization of the retail format in Japan at a time when the Japanese retail system was especially receptive to the new retail format. Thus the combined effect was reflected also in the retail system level when the new retail format was diffused within the Japanese retail system and the convenience store retail sector began to emerge in Japan. Also the systems stage is dominated by both the institutional and operational changes. The combined effect of these changes seems to be now more wide-ranging than earlier in the concepts stage. This is because of the wider scale and scope of the business operations and the embeddedness of the comprehensive corporate level system in the Japanese retail system. The embeddedness enables the chain, as a powerful actor in the Japanese retail system, not only to effectively respond to the emerging trends in the retail environment but increasingly also to facilitate social changes.

5.2. Understanding the system related dynamics

The preceding section already referred to some patterns about retail changes at the system level. In this section the focus of the conceptual analysis is shifted from the theory level to the system and paradigm levels. Here the conceptual analysis is guided by the fourth objective of this study, namely could the approach and the view of change developed in this study provide a new theoretical basis for the analysis and understanding of the system related dynamics in retailing. In this section the conceptual analysis is organized in the following way. First the conceptual model's assumptions of the system related dynamics are presented and the key systemic patterns observed in the empirical research are summarized. Then the system related dynamics in retailing are analysed from the viewpoint of the open-system interaction and the system equilibrium.

The foremost assumption of the conceptual model concerning the system related dynamics is that the three interacting elements with the relations between and within them make up a single holistic interacting system. In the model this complex dynamic interacting system was depicted with the third type of relation of the conceptual model. It was noted earlier in this

study that due to the complexity and the number of relations included in this system and the dynamic reciprocal nature of the relations, it is better to approach (and to analyse) the reciprocal interaction from the viewpoint of the first and the second type of relations than from the viewpoint of a single dynamic system. Thus although the existence of the single holistic interacting system is explicitly acknowledged in this study the analysis of the system related dynamics must be carried out by focusing on the analytically feasible and relevant component parts of the system. Therefore it is important to take into account another key systemic assumption of the conceptual model: the model's two levels of abstraction, institutional and operational levels, can be regarded as two dynamic interacting subsystems within the single holistic interacting system. Thus it can be maintained that the combined effect of the institutional and operational changes discussed earlier (section 5.1.) is produced by the dynamic interaction between the two subsystems.

The key systemic pattern observed in the cross-case analysis (section 4.6.) was the pattern of system elaboration (i.e. the change towards more elaborate systems), which was found to be closely related to the nature and direction of the retail format change. The outcome of the system elaboration was seen in particular in the systems stage in which the retail format operates as a part of the comprehensive corporate level system. From the viewpoint of the conceptual model the system elaboration concerns both the operational and institutional subsystems, as well as the single holistic interacting system formed by them. The empirical research showed also that retail change is a cumulative process. This means that when a retail format evolves over time and moves along the sequence of stages, there occurs not only the accumulation of retail elements but also the substantial accumulation of knowledge (i.e. organizational learning) both within the corporate system and within the retail system.

Other key systemic patterns observed in the empirical research were those concerning the intensifying rate of change at the different levels of abstraction. By taking into account what was discussed earlier in this study about these patterns (especially the effects between the levels; section 5.1.) and about the two levels as two dynamic subsystems, it can be maintained that the accelerated rate of change in the operational subsystem can produce the accelerated rate of change in the institutional subsystem. When the single holistic system

formed by the two subsystems evolves at an intensified rate, this can produce an intensified rate of change also at the higher level of abstraction, in the retail system (of a given country) in which the operational and institutional changes take place.

Open-system interaction. The open-system view of change which is explicitly acknowledged in this study provides an explanation for the systemic patterns observed in the empirical research. The open-system view of change was proposed in the general model of this study (Figure 3). According to the model the retail system (of a given country) and the retail environment evolve through continuous open-system interaction with each other. Both the retail system and the retail environment are adaptive systems. The retail system consists of retail institutions (i.e. retail formats) each of which are open subsystems within the retail system (of a given country). Each such an open subsystem interacts both with the other subsystems in the retail system and with the retail environment. Each open subsystem comprises of interacting operational and institutional (sub)systems. When a retail format as an open subsystem evolves through the continuous open-system interaction with other subsystems and with the retail environment, a retail format becomes embedded with the context in which it operates. Besides the embeddedness or the fit between the retail format and the retail environment, the open-system interaction is one of the key issues for understanding the pattern of system elaboration observed in the cross-case analysis. This is because the open systems tend to decrease in entropy, in other words to elaborate their structure (Buckley 1967: 50–51) (section 2.4.).

System equilibrium. The concepts of dynamic equilibrium and punctuated equilibrium (section 3.1.1.) can be used to analyse the systemic patterns observed in the empirical research and to elaborate the systemic view of the conceptual model. From the viewpoint of system equilibrium the dynamic reciprocal interaction model (Figure 6) is a model of dynamic equilibrium in retailing. In dynamic equilibrium all three elements of the model (retail format, managerial behaviour and context) and the two subsystems formed by them evolve at such a stable rate of change, which enables the system to adjust completely to the various changes and adaptations taking place between the elements. In dynamic equilibrium there is an ideal dynamic balance between the elements. If the dynamic equilibrium is

regarded as the normal state of the interacting system put forward in the conceptual model, then it can be maintained that the whole interacting system (as well as the operational and institutional subsystems) seeks the state of dynamic equilibrium. The dynamic equilibrium continues until a major change in one of the three elements (either on the operational or institutional level) is powerful enough to break the dynamic equilibrium and to force the system into the state of disequilibrium. After the period of disequilibrium the system returns to the state of dynamic equilibrium.

Also the patterns of the accelerating operational and institutional dynamics, discussed earlier in this chapter, can be understood in the light of the concepts of dynamic equilibrium and punctuated equilibrium. It was shown how in particular a change in the managerial behaviour element (i.e. retailers explicit planned decision-making) at the operational level, is able to trigger the accelerated rate of change in the operational system and how this can produce accelerated rate of change also in the institutional system. By taking into account the concepts of dynamic equilibrium and punctuated equilibrium the following system equilibrium based explanation for this phenomenon can be given. The aforementioned change in the managerial behaviour element breaks the dynamic equilibrium in the operational system (punctuated equilibrium in the operational system). The change in one element results in reciprocal changes and adaptations also in the other elements of the operational system. The operational system does not anymore evolve at the same stable rate as before but more rapidly. The operational system experiences a period of rapid changes. Since the operational and institutional subsystems are interdependent, the effects of the accelerated operational changes are reflected increasingly also in the institutional subsystem. At some point the accelerated operational changes break the dynamic equilibrium in the institutional subsystem (punctuated equilibrium in the institutional system). Now also the institutional system begins to evolve faster. The whole single interacting system formed by the two subsystems moves into a period of rapid changes. The high rate of change cannot continue infinitely but only for a certain period of time, until the system again returns to the state of dynamic equilibrium and continues to evolve at its normal stable rate.

This system equilibrium based explanation of the pattern observed in the empirical research bears some key similarities with the view of change proposed by the punctuated equilibrium paradigm (section 3.1.1.). The paradigm maintains that systems evolve through the alteration of periods of equilibrium (characterized by incremental adaptations and evolutionary changes) and periods of punctuated equilibrium (characterized by revolutionary, fundamental changes). Also the system equilibrium based explanation presented above includes an assumption of the alternation of the periods of equilibrium (particularly the dynamic equilibrium; characterized by a stable rate of change) and periods of punctuated equilibrium (characterized by the accelerating rate of change). With some reservations the period of dynamic equilibrium can be regarded as a period of evolutionary changes, and the period of punctuated equilibrium as a period of revolutionary changes. Above all it must be noted that no patterns of purely revolutionary (i.e. sudden and discontinuous) changes were observed in the empirical research.

Yet another similarity between the systemic view of change put forward in this study and the punctuated equilibrium paradigm concerns the uniqueness of the systems' histories. It is maintained in this study that since the retail change phenomenon is dependent on both managerial behaviour and the context in which it is occurring, retail change does not follow any universal pre-determined process but manifests itself in different ways in different settings (section 5.1.). There are however also some dissimilarities worth pointing out. The punctuated equilibrium paradigm does not assume that systems evolve through gradual blending from one stage to another. Nor does it fully acknowledge the systems' evolution from lower to higher states. Thus the punctuated equilibrium paradigm alone cannot be used to explain the patterns concerning retail transformation through a sequence of four stages and system elaboration, patterns which in this study were found to be closely related to the nature and direction of retail format change. In spite of the dissimilarities the punctuated equilibrium paradigm provides promising possibilities to enrich the systemic view of change proposed in this study.

5.3. Assessing the scope and limitations of the approach and the view of change proposed

The formation of the approach and the relativistic view of change (the conceptual model for understanding the institutional and operational dynamics in retailing) was done by following a research process which moved from the conceptual domain, to the methodological domain, to the substantive domain and then in this chapter back to the conceptual domain. The explicit choices made within the conceptual domain (section 3.4.1., Figure 7) with regard to the interrelated scope, parsimony and differentiation criteria led to the formation of a conceptual system (i.e. the dynamic reciprocal interaction model) which is highly parsimonious (the model conceptualizes retail change by using only three elements), which has a narrow scope (the model focuses on the retail format change taking place in a given context), and which has a high differentiation (the model conceptualizes the phenomenon at two levels of analysis). These choices are not only important from the viewpoint of theory building (the formation of the conceptual system) but also from the viewpoint of overall validity of this study, because the choices concern also the relations and the elements within all domains (conceptual, methodological, substantive and conceptual) and are thus inherent to all stages of the research process followed in this study (see Brinberg & McGrath 1985; the Validity Network Schema). It must be noted also that because of the highly parsimonious nature of the conceptual system, a multitude of factors affecting the retail change phenomenon are acknowledged implicitly in the conceptual system. This together with the other key assumptions of the conceptual system allow us to capture and to conceptualize in one model both the institutional and operational dynamics in retailing.

When assessing the scope and limitations of the approach and the view of change proposed in this study also in the light of another set of criteria (the syntax, semantics and pragmatics criteria; section 3.3., Table 6), two interrelated issues regarding the exploratory theory building nature of this study must be noted. First, due to the research process followed and the research methods used, this study is positioned near the theory building end of the research continuum, the opposite end of which is theory disconfirmation (see Bonoma 1985), (section 4.1.). Second, in the continuum of theory construction (referring to the

theory explicitness and the process of concept formation: implicit theory³ - theory sketch - explicit theory; see Dumont & Wilson 1970), the conceptual system proposed in this study is near the beginning of the continuum, in the stage of an implicit theory.

A conceptual system (like the one in this study) moves forward in the continuum of the concept formation and reaches the stage of an explicit theory as a result of the intersubjective consensus and the accumulation of research findings which support it (semantics criterion; also e.g. Dumont & Wilson 1970). Compared to implicit theories, explicit theories are expected to meet better the semantics criterion, and be also stronger with regard to the syntax criteria, since explicit formal theories should have robust structures and well-defined concepts. The aim of this exploratory study has been to explore the possibilities to analyse, understand and model the retail institutional change phenomenon, by looking at it from the reciprocal interaction perspective. The approach and the view of change proposed in this study are based on and influenced by the studies carried out in the field of consumer behaviour. Like the original model proposed by Rajaniemi and Laaksonen (1989), the conceptual system (depicted in the dynamic reciprocal interaction model) of this study is not intended to be an empirically verified theory, but rather a new way of analysing, conceptualizing and understanding such phenomena which cannot be approached with fundamentally positivistic and deterministic theories. By applying the reciprocal interaction approach (and its relativistic assumptions) in this study in the field of retail change, it was possible to create a conceptualization of the interrelated institutional and operational dynamics, to generate a number of propositions, and to observe a number of related dynamic patterns which were validated by qualitative research methods.

The conceptual system proposed in this study has not been created to maximize the fulfilment of the two aspects of pragmatics criteria, richness and simplicity (Table 6). The decision to keep the scope of the conceptual system narrow meant that the aim was not to seek comprehensiveness (i.e. high richness) but rather to focus on conceptualizing retail

³ According to Dumont and Wilson (1970: 46) the primary difference between an implicit theory and a theory sketch is that the forms of the propositions characterizing the theory sketch have been formally spelled out, even though their assertions may not be known to be true.

change which takes place in a given context. The conceptual system allows the analysis of the interrelated institutional and operational dynamics and provides also a promising starting point for the analysis of systemic patterns observed in the case research. Because of its relativistic assumptions, the conceptual system provides a promising basis for the creation of middle-range theories and opposes any attempts to create universal, comprehensive and generalizable theories based on it. Regarding the other aspect of the pragmatics criteria, simplicity, it can be argued that the reciprocal interaction approach and the relativistic view of change proposed in this study has a great communication potential in the sense that the key elements, relations and the levels of analysis included in the conceptual system are easy to depict with simple figures. As such the conceptual system, from the viewpoint of the simplicity criterion, has only limited applicability to retail decision-makers. Aimed to contribute to the theory building in the field of retail change, the conceptual system proposed in this study is not intended to offer any normative implications or recommendations for retail practitioners. It was shown however in the empirical part of this study that the conceptual system can be used to guide the empirical analysis to identify the various operational changes and the managerial behaviour related to them and to show how retail decision-makers are coping with the changes in the retail markets.

5.4. Towards relativistic middle-range theories

As it was discussed earlier in this chapter, the approach and the view of change put forward in this study can offer many novel and promising possibilities to contribute to the future theory building efforts in the field of theories of retail change. The use and application of the approach and the view of change as a basis for theory development would guide the theory development towards relativistic middle-range theories. A requirement for this is however that the paradigmatic foundations of the approach and the view of change are explicitly acknowledged in the theory development. These can be encapsulated with three key paradigmatic issues.

At the paradigm level the first and foremost proposition of this study is that the analysis and the conceptualization of the retail change phenomenon should be based on a relativistic research paradigm. The approach and the view of change proposed in this study emphasizes

relativism and acknowledges the context-dependent nature of the retail change phenomenon by maintaining that because of the dissimilarities in the managerial behaviour and the context in which the change takes place, retail change does not follow any universal paths with predetermined stages, which could be used as a basis for predicting future changes. Neither universal theories nor deterministic cyclical accounts of retail change can capture the full richness of the dynamic phenomenon and reveal the various interrelated factors which actually produce it. The analysis and understanding of retail dynamics calls for the use of research methods within the relativistic research paradigm.

The second proposition at the paradigm level is that the analysis and the conceptualization of the retail change phenomenon requires the explicit acknowledgement of the open-system view of change. This means in particular that it is important to take into account in the theories of retail change the continuous open-system interaction between the retail system and the retail environment, and the role of retail actors in producing planned and managed changes. With regard to the four existing paradigmatic approaches (section 2.3.), these assumptions of the open-system interaction are found within the combined approach (in the second subgroup of theories), which in this study was assessed to be the most promising approach for theory building, and on which the many assumptions put forward in this study were based.

The third proposition at the paradigm level is that the analysis and the conceptualization of the retail change phenomenon should be approached from the viewpoint of middle-range theories. Therefore instead of increasing the number of theoretical elements in a single theory in order to form more comprehensive and complex theories, the future theory building efforts should be directed to form several middle-range theories, each of them having a limited scope and a well-defined focus. Combined they could lead to more insightful understanding of the different facets of the retail change phenomenon. The conceptual system put forward in this study offers a possibility to guide the formation of these middle-range theories to take into account the various interdependencies between the three central elements (retail format, managerial behaviour and context) affecting retail change and to note the different levels of analysis (institutional, operational and system levels).

6. SUMMARY AND CONCLUSIONS

The research problem of this study was related to the analysis and understanding of the complex processes of retail institutional change. The purpose of this study was to analyse the role of time, context and managerial behaviour in the retail institutional change. The core of the research problem was to understand how the dynamic interaction between the retail format, managerial behaviour and context produces retail change. The study aimed towards theory building by providing a theoretical exploration of the possibilities to understand, conceptualize and model the retail change phenomenon: in particular the interrelated institutional and operational dynamics. The main focus of this study was on the conceptual domain, which was also the starting point of the overall research process followed in the study. From the conceptual domain the research process proceeded to the methodological domain, then to the substantive domain and finally back to the conceptual domain. As a result of this process, which was guided by the purpose and the four objectives set for the study, a novel approach and a view of change were proposed to analyse and to conceptualize a complex and highly dynamic phenomenon which is produced by a large number of interrelated factors.

In order to develop an approach and the theoretical foundations for modelling the retail change phenomenon, the rich body of existing theories of retail change were reviewed and analysed. The theories were classified into two general classes: uncomplicated theories and combined theories. The uncomplicated theories included cyclical, conflict and environmental theories. The combined theories comprised of both the middle-range type of theories based on the uncomplicated theories and formed by elaborating or explicitly integrating them (the first subgroup), and the more comprehensive and complex theories formed by integrating elements and theoretical assumptions into broad frameworks (the second subgroup). The review and analysis of the theories showed that the direction of the theory development has been from the deterministic closed-system theories towards comprehensive open-system theories. It was found that the combined approach proved to provide the most promising assumptions for further theory development from the viewpoint of the research problem of this study, since the modelling of the dynamic interaction in retailing requires the explicit

acknowledgment of the open-system view of change. Thus the modelling could not be based on theories with deterministic assumptions.

Next, in order to analyse and to model the dynamic interaction, the theoretical base of the study was broadened with assumptions derived from other approaches (primarily from the system approach) proposed for analysing the interaction between the retail institutions and the retail environment. A general system level model (Figure 3) was presented to illustrate the continuous open-system interaction between the retail system and the retail environment. By focusing only on the internal (retail system) - external (retail environment) dimension of the interaction, the model maintained that both the retail system and retail environment are open and adaptive systems. The retail system consists of open subsystems (retail institutions) which evolve through a continuous open-system interaction with the retail environment, consisting of factors over which a retail decision-maker has no direct influence. It was argued however that in order to take into account the role of managerial behaviour in retail change (e.g. the planned changes made by the retail decision-makers), the analysis and the modelling of the phenomenon could not be done at the system level, but at lower levels of abstraction, institutional and operational levels, facilitating at the same time the analysis of both the long-term institutional and the short-term operational dynamics in retailing.

The research process proceeded to more specified conceptualization of the dynamic interaction. The analysis and modelling of the dynamic interaction were guided by the choices made with regard to the interrelated parsimony, differentiation and scope criteria. It was decided to form a highly parsimonious model, in which only three elements (retail format, managerial behaviour and context) are used to conceptualize the phenomenon. Due to the interrelatedness of these criteria, only two of them can be maximized while the third one is minimized. Therefore it was decided to seek high differentiation rather than maximize the scope of the model. These choices directed the analysis of the reciprocal interaction between the three elements towards specificity and the formation of the dynamic reciprocal interaction model (Figure 6). The main assumption of the model is that retail change is produced by the dynamic reciprocal interaction between the retail format, managerial behaviour and context both at the institutional and operational levels. According to the

model there exists both multiple effects and responses between the elements. The various changes in the elements and the relations are reflected from the institutional level to the operational level and vice-versa. Three types of relations of the model were identified: the relations between the three elements at the same level of abstraction, the relations between the levels of abstraction within the same element, and the relations between the different levels of abstraction as a whole. It was argued that the two levels of abstraction, institutional and operational levels, form two interacting subsystems. The relativistic view of change proposed in the dynamic reciprocal interaction model was based on and influenced by the reciprocal interaction approach and a model introduced originally in the field of consumer behaviour.

In the empirical part of this study the research process proceeded first to the methodological domain and then to the substantive domain. Within the methodological domain the selection of the qualitative case research methods were supported by the exploratory and theory building nature of this study. The elements and relations from the conceptual domain and the research methods from the methodological domain were combined to form a concept-driven design (multiple-case design with two embedded cases) for the empirical analysis of the retail change phenomenon. The case study design was implemented by applying it to the substantive domain. Two strategic cases were selected from the Finnish (R-Kiosk chain) and Japanese (Seven-Eleven Japan chain) retail systems. Both retail formats selected for the empirical analysis operate in the convenience store retailing business. The case study research was carried out in two analytical stages: within-case analysis and cross-case analysis. With regard to the within-case analysis each case provided a chronological description of the evolution and adaptation of a retail format in its dynamic context. Both the long-term institutional and the short-term operational changes as well as the key years, events and periods of time in the company history were described.

The cross-case analysis focused on analysing the key patterns that emerged from the cases. It was shown that although each retail format had evolved by following its unique evolutionary path, there were however similarities (i.e. patterns of convergence) concerning the evolution and adaptation of the two retail formats. The foremost of these was the general

pattern related to the nature and direction of retail format change. It was found that the long-term evolution and adaptation of the retail formats had followed a sequence of four stages (distribution, concepts, managed processes and systems; Figure 12), each of which was characterized by a distinct type of development. A retail format moves from the initial distribution stage to the concepts stage when the explicit concept development is started and when its retail operations are standardized in order to achieve economies of scale and replication. The concept development results also in the combination of new retail elements (products and services) to the original concept. The transition to the managed processes stage occurs when a range of development processes are launched to improve the retail operations and the systems supporting them. A retail format moves to the systems stage when the many parallel development processes lead to the formation of a holistic corporate level system. The system development provides new possibilities to exploit the economies of scope and to use the retail format as a platform for the introduction of new business operations. The retail format's evolution along the sequence of stages is characterized by the pattern of system elaboration, i.e. the long-term change from simple systems to more elaborate systems. Both cases showed also similar patterns concerning the retailers' quest for economies of scale and replication, and the explicit combination of new retail elements (products and services) to the retail format in order to strengthen the core of the business operations and to provide customers extended convenience.

By pointing out the key patterns in the empirical research the cross-case analysis stage facilitated the research process to advance from the substantive domain to the conceptual domain, in which the conceptual system proposed in this study was first re-examined at the theory level, and then analysed at the system level and at the paradigm level. The analysis of the conceptual model in the light of the empirically observed patterns showed the conceptual system's ability to conceptualize both the long-term institutional changes and the short-term operational changes. These two kinds of retail dynamics were found to be closely interlinked with each other. The empirical findings implied in particular that the accelerated rate of change at the operational level could trigger the accelerated rate of change at the institutional level.

The patterns observed in the empirical research also supported the relativistic view of change put forward in this study. Although similarities were found concerning the nature and direction of the retail format change between the two cases, there were differences concerning how the institutional and operational dynamics had manifested themselves at the different stages of retail change. These differences were seen above all when analysing what had been the most dominant types of changes at the concepts, managed processes and systems stages (Appendix 5).

The conceptual system proposed in this study was also found to have promising analytical power for understanding the system related dynamics in retailing. By taking into account the systemic assumptions of the dynamic reciprocal interaction model (especially regarding the two interacting subsystems) and the assumptions concerning open-system interaction and system equilibrium, it was possible to suggest a system equilibrium based explanation of the patterns observed in the empirical research (section 5.2.). It was maintained that in view of the system equilibrium the dynamic reciprocal interaction model is a conceptualization of an open and adaptive system which seeks the state of dynamic equilibrium. It was found also that the systemic view of change proposed in this study had some similarities with the view of change proposed by the punctuated equilibrium paradigm. These findings motivate further elaboration of the conceptual system from the viewpoint of system equilibrium.

By taking into account the paradigmatic foundations of the approach and the view of change proposed in this study it was concluded that the use and application of the approach and the view change as a basis for theory development would guide the theory development towards relativistic middle-range theories (section 5.4.). Thus from the viewpoint of future theory development three paradigm level propositions were given. First, the analysis and the conceptualization of the retail change phenomenon should be based on the relativistic research paradigm. Second, the analysis and the conceptualization of the phenomenon requires the explicit acknowledgement of the open-system view of change. Third, the aim of the theory development should be the formation of middle-range theories.

In addition to indicating potential way for future theory building the conceptual system proposed in this study can be used to guide the empirical research on the subject by pointing out the boundaries of dependence (i.e. the relations between the three elements) with regard to the retail change phenomenon. In this study the core concept in the empirical analysis was the retail format. The conceptual system offers several options concerning the levels and units of analysis in the empirical research, thus allowing to focus on the various aspects of the retail change phenomenon. A focused analysis of the managerial behaviour is needed to explore in greater detail the different types of adaptations taking place in the different stages of the retail format change. By raising the level of analysis and by focusing on the context it is possible to examine the processes through which a retail format becomes embedded in the cultural context or the mechanisms which link the retail format change with the overall processes of social change.

The future empirical analysis of the aforementioned issues within the substantive domain requires the use of research methods which are sensitive to the context in which the retail change takes place and which are suitable for research based on the relativistic research paradigm. The main interest in this study was in the conceptual domain. The research process involved the creation of the empirical research setting which relied on the use of qualitative case research methods and descriptive analysis. The development of research methods remains however a challenge for future research endeavours on retail dynamics. One possibility for dealing with the methodological and analytical challenges is to carry out the so-called method oriented research, by starting the research process from the methodological domain. Future research on the subject should also attempt to go forward along the research continuum from descriptive analysis to more interpretive analysis. From this viewpoint the appropriate and preferred research methods could be ethnography methods used in the in-depth analysis of organizational change. In addition, analysis of the long-term dynamics in retailing could be deepened with the use of research methods suitable for historical analysis. The multiple-case design created in this study offers a starting point for the formation of research settings for purely comparative studies of retail change.

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Personal interviews

Rautakirja Oyj, Kiosk Division

Markku Pelkonen, Senior Vice President	Vantaa, June 6th 2001
Pentti Talikka, Director, IT and Logistics	Vantaa, July 4th 2001
Mirja Hellstedt, Regional Sales Manager	Vaasa, July 13th 2001
Mikko Miettinen, Development Manager	Vantaa, July 29th 2001

Ito-Yokado Co., Ltd., Corporate Development Department

Kazuo Otsuka, General Manager	Tokyo, October 3rd 2001
Mitsuru Yamada	Tokyo, October 3rd 2001

APPENDIX 1. Interview themes.**A general theme**

An example of a specific theme

1. Retail format at the time of introduction.

Main characteristics.

Timing: the introduction of the store in the retail system.

Origin of the format.

2. Institutional changes and adaptation.

Main long-term institutional changes.

Timing of the main changes.

Major stages, periods and years in the evolution of the stores.

Introduction of innovations, additional services and incremental improvements.

Strategic managerial behaviour related to the main institutional changes.

Changes in the managerial behaviour.

Changes in the position of the stores in the retail structure.

Changes in the retail business in which the store operates.

Changes in the stores' internal operations.

Changes in the merchandise assortments, product categories, additional services and price levels.

Changes in the locations of the stores; the geographical expansion.

Changes in the concept, design and appearance of the store.

Monitoring of changes at the institutional level.

3. Operational changes and adaptation.

Main short-term operational changes.

Timing of the main changes.

Introduction of innovations, additional services and incremental improvements.

Managerial behaviour related to the main operational changes.

Proactive and reactive actions used for controlling and managing change.

Changes in the managerial behaviour.

Changes in the stores' internal operations.

Changes in the merchandise assortments, product categories, additional services and price levels.

Operational differences between individual stores.

Monitoring of changes at the operational level.

4. Context at the time of introduction.

Main characteristics.

Institutional and operational context at the time of introduction.

Main characteristics of the retail environment at the time of introduction.

Prevailing trends and processes at the time of introduction.

Main contextual factors favouring the introduction of the format.

5. Changes in the institutional and operational context.

Main changes, and the effects of these changes on the evolution of the store.

Changes in the competitive, economic, consumer, social, technological environment and legislative environment.

Periods when the speed of change has been rapid / slow.

APPENDIX 2. List of background information used in the cases.**Company**

Year founded
 Parent company / group
 Alliances with other companies
 International operations
 Company size
 Turnover
 Total number of employees
 Number of stores (in the retail system / internationally)

Retail format

The opening of the first store (year)
 Floor space of the store (on average)
 Number of employees per store (on average)
 Merchandise assortments and categories (main), the best selling merchandise categories
 Number of merchandise items in the store (on average)
 Additional services (main), the categories of these services, the best selling additional services
 Price level of the stores compared to competitors (on average)
 Typical locations of the stores
 Customer groups (the characterization of a typical customer)
 Number of customers per store per day (on average)
 Characteristics of the arrangement of the distribution and logistics
 Horizontal and vertical networks
 Cooperation with suppliers, producers and wholesalers
 Number of suppliers per store (on average)
 Operational and management related characteristics (e.g. franchising)
 Systems used for monitoring consumer demand and changes in the marketplace
 Other systems (e.g. POS, information systems and networks)
 Technological, operational and other innovations introduced in the stores (the year of introduction)
 Changes in the number of stores
 Major stages of evolution of the format
 Present stage of the retail life cycle of the format

Context

Retail institutional structure of the retail system (the main characteristics)
 Retail format's position in the retail structure
 Changes in the retail institutional structure during the evolution of the retail format
 Competitive environment (the main characteristics, the main competitors)
 Consumer environment (the main characteristics)
 Factors in the institutional and operational context which have favoured the emergence of the retail format

Interview

Name of interviewee
 Position
 Areas of responsibility
 Time, place and duration of interview

APPENDIX 3. Evolution of R-Kiosks: key years and events in the company's history.

1910s-1940s ESTABLISHING THE FOUNDATIONS FOR GROWTH	
1910	Company, Rautatiekirjakauppa Osakeyhtiö, founded.
1911	First window-counter kiosks selling newspapers and literature opened at railways stations. Sales of newspapers and literature on trains started.
1913	Wholesale of newspapers and literature started.
1920	Number of kiosks is over 100. Sales of annual subscriptions started.
1933	Opening of first kiosks outside railway stations. Sales of films, sweets, cigarettes and tobacco started.
1940	Kiosks started to operate as pool agencies.
1949	Opening of first kiosks at bus stations.
1950s-1980s R-KIOSKS - CONCEPT FORMATION AND TESTING	
1950	Expansion of the kiosk network outside railway stations.
1958	First kiosk under the new logo "R-Kiosk" was opened.
1968	First computer taken into use in the company.
1971	Number of R-Kiosks is 500.
1974	Rautakirja Oy (Ltd.) became the official company name.
1975	Number of R-Kiosks is 680.
1982	Video rental service introduced in R-Kiosks.
1985	Development of electronic cash register system started. First direct data communication connection between the company headquarters and regional offices. First indoor/walk-in type of R-Kiosk opened (in the mid 1980s).
1986	Number of R-Kiosks reaches its peak: 840.
1987	Development of franchising system started. Development and planning of "R-convenience stores" started. First Super R store opened in Tampere (11/87).
1989	Three year licence agreement with Circle K (UK) Ltd. signed. First Circle K convenience store opened in Tampere.
1990s-2001 MANAGED PROCESS TOWARDS CONVENIENCE STORES	
1991	Number of R-Kiosks is 828.
1992	First development unit type of R-Kiosk introduced.
1993	Internationalization: first R-Kiosks opened in Estonia.
1994	Development of a reporting system ("Raket") started.
1995	Development of banking services began: first ATMs for cash withdrawals taken into use (4/95). Number of R-Kiosks is 760. Sales of drinks (beer) with low alcohol content started.
1996	Development of electronic cash register system ("Elka") started. Parcel delivery services in R-Kiosks started. Postal services in selected R-Kiosks introduced.
1997	First minimarket type of R-Kiosk introduced. Sales of wider selection of foodstuffs started. First electronic cash registers ("Elka") taken into use in R-Kiosk. First ATM for bill-paying taken into use (4/97).
1998	Electronic cash register system ("Elka") installed in all R-Kiosks run by the company. Development of electronic cash register system ("Elka") for franchised R-Kiosks started.
1999	Pilot project for further development of banking services launched. First Internet Automats with self-service net access introduced in R-Kiosks. Electronic cash register system ("Elka") installed in all R-Kiosks.
2000	Ärrä-Express parcel delivery service started in R-Kiosks. Pilot project concerning the combined R-Kiosk - Veikkausrasti outlets launched. Number of R-Kiosks is 722.
2001	First R-Kiosk with an extended gaming section opened in Helsinki (2/01).

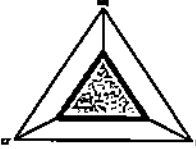
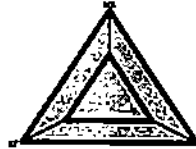
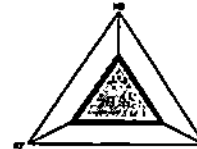



Sources: Kastemaa 1970, 1985; Kauppalehti Extra 2000; Rautakirjalehti 1983, 1985, 1987b, 1996, 1997b; RKA 1998, 1999, 2000; RKD 2001; RKW 2001; personal interviews.

APPENDIX 4. Evolution of Seven-Eleven convenience stores in Japan: key years and events in the company's history.

1970s	INTRODUCING THE CONCEPT IN JAPAN
1971	Company name Yokado Co., Ltd. was changed to Ito-Yokado Co., Ltd. (3/71).
1973	York-Seven Co., Ltd. was established with licence agreement between Ito-Yokado Co., Ltd. and The Southland Corporation (US) (11/73).
1974	First convenience store (York-Seven) opened in Tokyo by York-Seven Co., Ltd. (5/74). Film processing service introduced (5/74).
1975	First store with 24 hours opening time opened.
1978	York-Seven Co., Ltd. changed its name to Seven-Eleven Japan Co., Ltd. (1/78). Point of sales system (POS-system) introduced (the first generation system).
1980s	REFINING IT-SYSTEMS AND INTRODUCING NEW SERVICES
1980	1000th store opened (11/80). Sales of movie tickets service introduced (12/80).
1981	Postal package handling service introduced (11/81).
1982	Comprehensive Operation Reform Project launched by Ito-Yokado Co., Ltd. (2/82). Use of the POS-system in item-by-item control started. Copy machines service introduced (4/82).
1983	Number of stores is 2000. POS-system installed in all Seven-Eleven stores (2/83). EOB introduced (the second generation system).
1984	2000th store opened (2/84).
1985	Computers using colour graphics introduced.
1986	Interactive POS registers introduced (the third generation system) (2/86). Sales of prepared sandwiches started (4/86). Sales of telephone cards service introduced (12/86).
1987	3000th store opened (4/87). Bills payment (electric) service introduced (10/87).
1988	Bills payment (gas) service introduced (3/88).
1989	Bills payment (life insurance) service introduced (2/89). Bills payment (TV and radio) service introduced (6/89). Sales of pre-paid cards service introduced (11/89).
1990s-2001	EXPANDING THE CONCEPT: COMBINING NEW RETAIL ELEMENTS
1990	Sales of liability insurance (bicycle insurance) service introduced (5/90). 4000th store opened (6/90).
1991	Catalog sales service introduced (1/91). Ito-Yokado Co., Ltd. and Seven-Eleven Japan Co., Ltd. acquired major interest of The Southland Corporation (US) (3/91). Bills payment (telephone) service introduced (4/91). ISDN system taken into use.
1992	New POS registers introduced (the fourth generation system). 5000th store opened (12/92).
1993	First Seven-Eleven Express store opened (7/93).
1995	Weather information system introduced.
1997	Satellite antennas installed for the information system. The Fifth Generation Total Information System introduced.
1999	New POS registers introduced. Implementation of the latest system generation completed (6/99).
2000	A subsidiary of Seven-Eleven Japan Co., Ltd. 7dream.com with online shopping services established jointly with seven other companies (2/00). Seven-Meal Service introduced (8/00). Installation of Multimedia Terminals started (11/00).
2001	IY Bank Co., Ltd. established by Seven-Eleven Japan Co., Ltd. and Ito-Yokado Co., Ltd. (4/01). First ATMs of IY Bank Co., Ltd. taken into use (5/01). Number of stores is 8661.

Sources: Barrett & Buehler 1997; Bernstein 1994, 1996; Ito-Yokado 1996, 1999b, 2001; Meyer-Ohle 1995; Ogawa 2000; SEI 2000, 2001a: 15-16, 2001b; Sparks 1994: 338; personal interviews.

APPENDIX 5. Depiction and characterization of the most dominant types of changes (institutional [outer triangle] and/or operational [inner triangle] changes) at the concepts, managed processes and systems stages.

	SEQUENCE OF STAGES		
	CONCEPTS	MANAGED PROCESSES	SYSTEMS
<p>R-KIOSK</p> <p>Stage dominated by</p> <p>Stage characterized by</p>	 <p>Operational changes</p> <p>Concept development. Accelerating rate of change at the operational level. Exploitation of the economies of scale and replication. Introduction of new retail elements.</p>	 <p>Institutional and operational changes</p> <p>Accelerating rate of change both at the institutional and operational levels. Exploitation of the economies of scale and replication. Change in the position of the retail format. Parallel development processes. New retail elements combined.</p>	 <p>Operational changes</p> <p>System development facilitates the combination of new retail elements. Exploitation of the economies of scope.</p>
<p>SEVEN-ELEVEN JAPAN</p> <p>Stage dominated by</p> <p>Stage characterized by</p>	 <p>Institutional and operational changes</p> <p>Institutionalization of the retail format in its new context. Accelerating rate of change both at the institutional and operational levels. Adaptation of the retail format to suit the characteristics of the new institutional and operational context. Exploitation of the economies of scale and replication. Introduction of new retail elements.</p>	 <p>Operational changes</p> <p>Accelerating rate of change at the operational level. Exploitation of the economies of scale and replication. Parallel development processes. New retail elements combined.</p>	 <p>Institutional and operational changes</p> <p>Accelerating rate of change both at the institutional and operational levels. Change in the position of the retail format. System development facilitates the combination of new retail elements and the launch of new business operations. Exploitation of the economies of scale and replication. Exploitation of the economies of scope.</p>