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**An Analysis of the market entry mode choices of International Retailers.**  
**(An institutional perspective view of International Retailers in Nigeria).**

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**Abstract**

The relationship between organizations and the environment is the main emphasis of Institutional theory. Institutions consist of political, cognitive, and sociological elements that form the external and internal environment of a firm both of which affect firm decisions and behaviours. This research introduces the institutional theory to explain international retailers' foreign market entry choices in the context of a developing world market like Nigeria. Therefore, using an exploratory qualitative multiple case methodology, this research looks at entry mode decisions of international retail firms in relation to this theoretical perspective as an explanation for retailers internationalization.

**Key words:** Entry location, entry mode, market entry, internationalization, institutional theory, Retailer.

**Introduction and Objectives**

Numerous scholars have researched and written about firm Internationalization. Available studies show very many dimensions of firm international expansion activities. A part of this broad area of firms' International activities, one that has attracted the attention of academics in about the last two decades is Retail Internationalization. Research activities in the area of international retailing have increased dramatically within this stated period and this has been the product of both the academic and commercial environments (Alexander & Myers, 2000). The literature on international retailing

has increased over the years, with an increasing variety of international retailing issues considered (Alexander, 1990). Although there is now a developed body of knowledge on this topic, it is interesting to note that the majority of studies have focused, either implicitly or explicitly, on the activities of retail organizations in the developed economies of the West and a few studies on the emerging world markets in the Far East and Latin America: (Hong Kong, Japan, China, Brazil, Mexico etc). There are no available studies looking at retail internationalization in the emerging African markets and the Nigerian market particularly.

There is a gap in knowledge on retail internationalization into emerging markets of Africa. It is not clear if frameworks developed to explain the process of internationalization in other parts of the world can be transferred to the internationalization of retail firms in emerging markets of Africa especially with to the institutional pressures in the environment. This study attempts to redress the gap in knowledge by drawing on the major themes and findings from the broader, established literature on retail internationalization to provide a conceptual framework to highlight key aspects of international retailing, into the African markets and Nigeria situation particularly.

The major objectives of this study therefore, is: To ascertain the modes used by International Retail firms in entering into developing markets such as the Nigerian market, ascertain the determinants that influence the retailers' entry mode choice and also, ascertain the institutional pressures facing international retail firms and how these influences their entry mode decisions.

. This study will therefore aim to answer the following research questions:

- (1) What entry modes do retail firms use to Internationalise into developing markets like Nigeria?
- (2) What major retail company characteristics influence its entry mode choices?
- (3) What institutional variables affect the entry mode choice of retail firms?

Nigeria has been chosen for this study because being the second largest economy in Africa, Nigeria is considered to be the most promising market for retail firms going by its size, and looking back at how far ago international retailing activities started in the country, coupled with the way the retailing and other sectors of the economy have been opened by the last government in the country to attract FDI.

## Literature Review

Several studies of international business have indicated that internationalisation of the firm is a process in which the firm gradually increase their international involvement. Over the years, the process of firm internationalisation has been the subject of widespread theoretical and empirical research within the field of international business, and marketing (e.g. Johanson and Vahlne, 1977; Cavusgil, 1980, Alexander and Myers, 2000). Many available studies show the internationalisation activities of firms but mainly in the area of manufacturing. So far, there remains much debate about the explanatory limits and generalisability of these analyses from the manufacturing firms to service firms to which retailing belongs (Erramilli 1990; Agarwal and Ramaswami 1992; Erramilli and Rao, 1993; Ekeledo and Sivakumar 1998). Some recent empirical results have found support for example, to only a limited application of the determinants of manufacturers' entry mode decision to service firms (Ramon-Rodriquez, 2002; Ekeledo and Sivakumar 2004), thus questioning the extent to which existing theories and frameworks can apply to services and calling for additional studies.

The above arguments notwithstanding, in trying to understand the process of retail internationalisation, the literature on international business has contributed to the development of several theoretical frameworks. Though tested within the context of manufacturing firms, they have been applied to explaining the internationalisation process of retailing (e.g. Sternquist 1997; Vida and Fairhurst, 1988). Some of the relevant models are: the stages model (Cavusgil 1980; Johanson and Vahlne 1977, 1990), the eclectic paradigm (Dunning, 1981, 1988), and the network perspective (Johanson and Mattsson 1988). It has been emphasized that as retailers internationalize, it is important to understand their uniqueness and distinguish their behaviours from manufacturers.

All of these models have looked at specific aspects of internationalisation; but in the international retailing literature, while the specific challenges faced by retail companies in their internationalisation process are well-recognised (Dawson 1994; Sparks 1995; Dawson 2001; Howard 2004), scant attention has paradoxically been paid to the entry mode decision (Doherty 2000; Vida 2000) despite its critical impact on the success of retailers' overseas operations (Burt et al, 2003). For this reason, some renewed interest have arisen, calling for the conceptualisation of retailers' foreign entry mode choice by designing specific research on this question in the retailing industry (Picot-Coupey 2006:216). Along this line, very many theoretical frameworks have attempted to assess the retail internationalisation process (e.g. Salmon and Tordjman, 1989; Dawson, 1994; Sternquist, 1997; Vida and Fairhurst, 1998; Doherty, 1999; Alexander and Myers 2000 and Picot-Coupey, 2006). These studies draw

from the broader literature on international business, and also incorporate specific elements of retailing found in the literature.

It is important to note that all of the above theoretical frameworks in one way or the other, recognise the importance of the external environment as well as internal company characteristics in the internationalisation decisions of retail firms and this is also the main area of emphasis of the *institutional theory*; hence this theoretical perspective is introduced as a framework to explain international retailers' foreign entry mode choices.

Institutional theory examines the role of social influence and pressures for social conformity in shaping organisational action. The main premise of institutional theory is that the institutional environment is composed of institutions and social actors that will provide normative pressures for the structures and practices of other social actors (Scott and Meyer, 1983, DiMaggio and Powell, 1983). Within this environment, organisational forms and practices are shaped purely by technical rationality, but organisations adopt patterns that are externally defined as appropriate. Thus, there is a social interdependence of organisations and their environment.

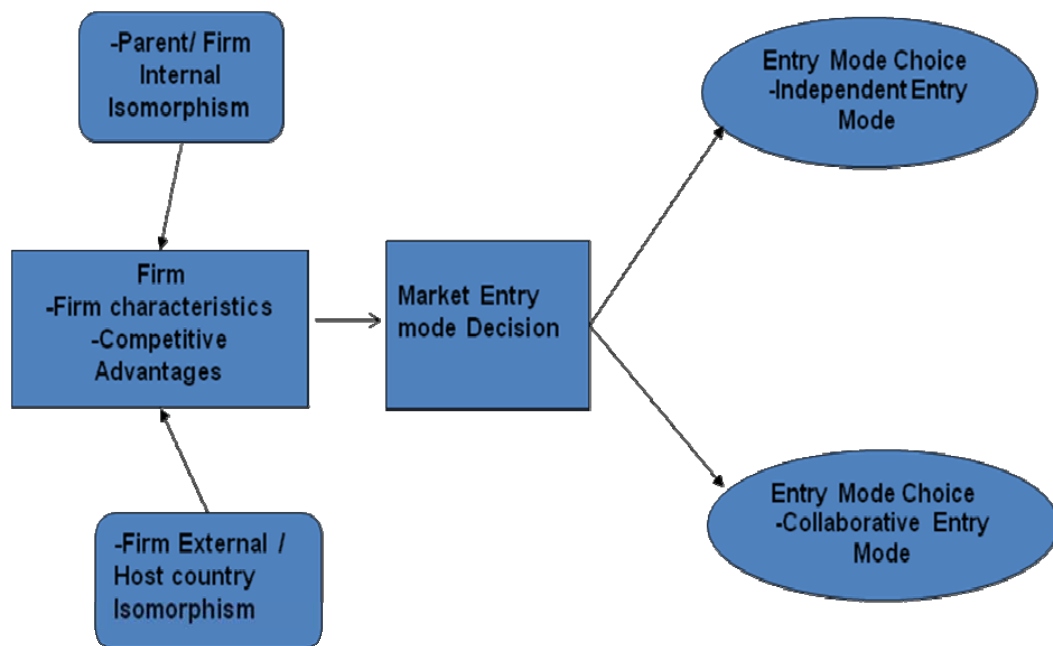
Under this theoretical framework the ultimate goal of a firm is survival, and therefore organisations conform to institutional norms, not necessarily for reasons of efficiency, but rather to increase their legitimacy and survival capabilities (Meyer and Rowan, 1977, DiMaggio and Powell 1983). Thus, social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

Although this theory has recently been introduced into retailing (Handelman and Arnold, 1999; Arnold et al 1999, Bianchi and Arnold, 2004), it has before now been considered in many other disciplines such as economics (North, 1990), sociology (Zucker, 1987), organisational Behaviour (DiMaggio and Powell, 1983, Meyer and Rowan, 1977), international business (Westney, 1993), and marketing (Homburg et al., 1999; Varadarajan and Jayachandran, 1999). This study is aimed at looking at the main elements of the institutional theory as this theoretical perspective is applied in a retailing context considering such elements as: organisational fields, social actors in the retailing environment, institutional norms of retailing, and organisational legitimacy strategies. All of these are important because of the need to consider the possibility of international differences due to varying institutional environments (Scott, 1995).

As discussed in the previous section, the entry mode choice chosen by an international retailer and the eventual success of such a firm under an institutional approach can be seen as

the ability of the retail firm to gain legitimacy from all the relevant social actors in the field of retailing. This differs from a market orientation approach where retailers focus mainly on consumers and competitors as the relevant social actors. So knowing that the entry mode strategy used by an international retail firm is influenced by both internal and external environmental factors, the figure below is the conceptual model proposed for use in this research study.

### Conceptual Model of Entry mode Choice:



## Methodology

According to Zalan and Lewis (2004:511) the purpose of methodology is to demonstrate the grasp of the theory of methods and to lay out general methodological considerations consistent with the research problems, ontological and epistemological positions and underlying theories. The following three aspects need to be addressed:

- (1) Research methods in previous studies and their limitations
- (2) Justification of the methodology used by focusing on its advantages over other methodologies; and
- (3) A brief description of the methodology.

Zalan and Lewis further added that the choice of methodology is determined not only by the ontological and epistemological stance of the researcher, but also by (1) the objective of the

study, (2) the nature of the research problem; and (3) the theoretical frameworks that inform the study. The case study methodology has been used for this study because this approach seems to be particularly appropriate when theoretical developments are limited, phenomena are context-dependent and when it seems necessary to enrich and reconfigure the elements derived from the literature review to define a model (Mbengue and Vandangeoan-Derumez, 1999:335-71). The issue is then explored through a multiple case-study approach as it constitutes a useful analytical tool when there is a need to identify common elements to deepen the knowledge of the research subject. It lays the groundwork for the construction of a 'composite portrait' (Stake 1995).

A four-step research design is used in this study:

Firstly, data on retail operation mode decisions is collected from the Federal Ministry of Commerce and Industries Nigeria. This association regulates and provides expertise to retail and manufacturing firms operating in the country. Top executives of the ministry were interviewed especially those in charge of the operations of retail firms in the country.

Six in-depth interviews have also been conducted in the two international retail firms (Game stores, and Shoprite) used for this study, so as to obtain some very valuable information from the key decision makers in these establishments. The interviewees are the top management members of the organizations who are key decisions makers in this area. The purpose is to seek knowledge on various aspects of the internationalisation process of the firms especially their entry mode strategies, their selection of foreign markets, and how the internationalisation process started.

Thirdly, both internal and external secondary source materials have been collected and are being analysed. Internal reports on store networks and international expansion plans, as well as pictures of stores in foreign countries will be studied for each of the case studies. An extensive research in newspapers and magazines, on company websites, as well as in company annual reports is being studied.

Lastly, participant observation has been used in the data generation as well. Observation as a data collection tool entails listening and watching other people's behaviour in a way that allows some type of learning and analytical interpretation. The main advantage is that we can collect first-hand information in a natural setting Ghauri and Gronhaug (2002:90). The non-participatory observation method has been used for this study in triangulation with the other methods of data collection so as to have a rich and balanced source of data. It is hoped that important findings and recommendations will be obtained from the analysis of the rich data generated.

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