The Retail Internationalization

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Summary: The retail internationalization process is a long, risky, complex, expensive and non-linear one. Failure rates have been high for some of Europe's major firms. Moreover, and despite the current trend of standartization towards a single consumer, each country continues to require a specific approach. In a number of emerging economies, distribution maturity has accelerated, whether Rumania, Slovenia, Bulgaria, Chroatia with the emergence of strong local retailers who understand how to copy overseas retailers' know-how, correct mistakes, and develop hybrid formulae that are better adapted to the local setting.

Extant literature on retail adaptation is fragmented, with contradictory evidence being provided by disparate studies set in different socio-economic contexts. Psychic distance has been identified as an important antecedent to format adaptation. However, the exact nature of its intervention is disputed. There is evidence suggesting that high psychic distance leads to standardization as well as adaptation

The international strategy consists of core competencies, competitive advantages in home country and in host country, strategic decisions: what, when, where, how, international operations: pre-entry – entry-growth, repositioning, performance. Strong retail business formula in the home market is a combination of material and non-material elements owned by the retail firm and providing solutions that are both global and specific to the customer in terms of sale of goods and services.

Characteristics of the expanding international retailers are: innovations, adaptation to the market, exploitation of economies of scale and scope, faster operation of all process. Systemic retailers are defined as non-autonomous firms with a hierarchical/clan organizational culture and a centralized, formalized and specialized structure. Entrepreneurial retailers are defined as autonomous firms with an adhocracy/market centric organizational culture and a decentralized, non-formalized and non-specialized structure

The presented strategies are four: horizontal, perceptual, forced and migrational. Systemic retailers are characterized by an innovation led approach to agenda setting. Systemic retailers are characterized by an incremental approach to adaptation. Entrepreneurial retailers are characterized by a problem led approach to agenda setting. Entrepreneurial retailers are characterized by an innovation approach to adaptation. Systemic retailers adopt a risk avoiding approach to adaptation. Entrepreneurial retailers adopt a risk neutral approach to adaptation.

Key words: International retailing, Psychic distance, Standartization, Adaptation

JEL: F01, L81.

Introduction

The retail internationalization process is a long, risky, complex, expensive and non-linear one. Failure rates have been high for some of Europe's major firms, such as Marks & Spencer, Royal Ahold, Carrefour have instigated a series of new international launches and withdrawals. Could these groups have avoided failure? Did some of them neglect their home market? Analysing the cause of a failure is often as important as analyzing a success. Moreover, and despite the current trend of standartization towards a single consumer, each country continues to require a specific approach. In a number of emerging economies, distribution maturity has accelerated, whether Rumania, Slovenia, Bulgaria, Chroatia with the emergence of strong local retailers who understand how to copy overseas retailers' know-how, correct mistakes, and develop hybrid formulae that are better adapted to the local setting.

Extant literature on retail adaptation is fragmented, with contradictory evidence being provided by disparate studies set in different socio-economic contexts. Psychic distance has been identified as an important antecedent to format adaptation. However, the exact nature of its intervention is disputed. There is evidence suggesting that high psychic distance leads to standardization as well as adaptation. Thus, moderation in this apparently contradictory relationship is the gap that is identified in this study. Retailers have been classified as entrepreneurial or systemic based on the degree of autonomy permitted by the structure and culture of the organization. Diffusion of innovation literature is used to differentiate the process of adoption followed by systemic and entrepreneurial retailers. Adaptation literature is classified into four generic strategies, highlighting the differing paths that systemic and entrepreneurial firms undertake in their quest to adapt. Systemic retailers follow a perceptual route to migration that is characterized by an innovation led route to adaptation resulting in incrementalism and low risk propensity. Entrepreneurial retailers adopt a forced route to migration that is characterized by a problem-initiated route to agenda setting and a neutral risk propensity. Thus, autonomy, risk propensity and innovativeness are the primary drivers towards the different internationalisation paths followed by systemic and entrepreneurial retailers.

1. Circumstances for a successful Retail Internationalization

The decision to enter overseas markets is often the decision of one person or a small group of founding shareholders who take the initiative. Interviews with retail managers in France showed that the basic decisions to internationalize were often taken intuitive. Successful formats within the domestic market move to the other culture societies and not always with success.

The basic of an international retail strategy consists of four types of key strategic decisions in answers of four strategic questions:

1. What store formats and formulae should be internationalized in priority?
2. In what country or group of countries should investment occur?
3. When should international moves be made?
4. How should internationalization be achieved?

The international strategy consists of core competencies, competitive advantages in home country and in host country, strategic decisions: what, when, where, how, international operations: pre-entry – entry-growth, repositioning, performance. Strong retail business formula in the home market is a combination of material and non-material elements owned by the retail firmand providing solutions that are both global and specific to the customer in terms of sale

of goods and services. This formulae revolves around three points:

1. Controlling the sales model (assortment, discount strategy, innovation);
2. Establishing the economic model (revenues and investments on a square metre basis);
3. Determining the financial model (site ownership or rental).

The key success factors are size of domestic market, control of the supply chain, exportability of the retail formula and competitive advantages, defining the "glocalization" level.

Managing the retail internationalization process.

Phases in the internationalization process are: choosing a target country, taking several important strategic decisions, transfer of KSF and developing international retail strategy.

A. Choosing a target country. When choosing a target country the following criteria can be considered:

Geographic distance. Taking a formula to a country that is geographically close helps limit investments, especially logistic costs in the entry phase.

Cultural proximity. This broad concept can be a key factor in choosing a country. Wal-Mart, for example, has not successfully transferred to all its foreign markets, but the company has affirmed its presence most in countries that share a cultural proximity, notably Canada, and the UK via ASDA acquisition.

Maturity of the distribution system. This can be measured by the market share of modern retailing contributing to a country' retail revenues. This has grown over the past decade,

especially in the large cities of emerging countries like Bulgaria and Rumania. Generally speaking, the more mature a country the harder it is to enter. Maturity is based on economic factors as well as the distribution system.

Economic and political stability. The legal and regulatory environment and acceptance of foreign investment is an important variable to considered. The aspect may be seen in the changed perception of Rumania and Bulgaria as potential markets of interest for international retail ventures.

Three types of markets can be identified:

Mature markets. The countries are characterized by high competition and sophisticated consumer demand. These markets are difficult to enter without a strong network and / or a highly differentiated retail formula.

Poor countries include countries or group of countries that have not enough economic development and whose inhabitants' standard of living and / or incomes are not high enough to forsee economic growth.

Emerging economies. This group offers strong growth and progressive opening to foreign investment. These countries are attractive markets for retailers and include countries in Central and Eastern Europe.

B. It is necessary to take a few *key strategic decisions:* choosing entry mode; choosing the time of entry; seeking the location of the first outlet; entry strategy, launch and early adaptation; reposition and analyzing failure to the withdraw from a country.

C. Transfer of key success factors

In establishing the new role for retailing, the leading firms have developed a distinctive Eu-

ropean model of management in retailing and distribution. This European model is:

Internationalist in outlook, not domestic, for example Metro and Tesco;

Structured around a consumer-driven integrated demand chain, not a supplier-driven supply chain, for example IKEA and Lidl.

Built around a core of market innovation, not copying. The adoption of retail marketing in the large firms has spread through the whole sector to become a widespread feature of European retailing.

Using network structures to create the management controls.

Very adaptabile. The considerable variety of long-established national, regional and even local cultures in Europe has forced retailers to eschew standardized approaches and requires them to be locally adaptive in their operations.

Characteristics of the expanding international retailers are: innovations, adaptation to the market, exploatation of economies of scale and scope, faster operation of all process.

2. Standardization versus adaptation

One of the perennial discussions in international marketing literature is the extent to which firms need to adapt their offering to different geographical markets (Levitt, 1983; Kotler, 1986). Geographical markets could be countries, provinces within countries or urban versus rural areas. Geographic regions differ from one another with respect to demographic, economic, cultural and linguistic bases. These differences have a profound impact on the way a product is perceived, understood and utilized. Thus, the

important decision that a firm needs to make when moving from one market to another is the extent to which it needs to adapt its offering to suit the requirements of the market it is moving into (Solberg, 2000).

Retailers like any other firm need to make this decision when they move their formats, which is their offering from one market environment to another. The environmental view of institutional evolution maintains that changes in the economic, demographic, social, cultural, legal and technological conditions of the marketplace are reflected in the structure of the retail system. Studies have been reported from Chile, Israel, Turkey, China, Saudi Araby and Brazil (Alexander, 2002). These studies have all reported on the failure of using standardized formats and the need to adapt to the socio-cultural environment of the country being entered.

However, having said that there is a strong school of thought that advises standardization across different geographical markets. In a study of 130 papers published in this area between 1961 – 2002, Waheeduzzaman and Dube (2004) show that 23 % of the papers published showed results favouring standardization. An attempt has been made in this paper to understand the role of the environment in adaptation of formats in comparative retailing and also analysing situations where standardization is prevalent. The mediating role of the internal firm characteristics (structure and culture) are utilized to classify retailers as systemic and entrepreneurial. The constructs are then defined to show that psychic distance leads to standardization or adaptation depending on this nature of the retailing firm. The different routes to adaptation are then explored using the concept of diffusion of innovation in organizations. The study ends with propositions characterizing the alternate paths to migration for different categories of retailers. The

conclusion briefly dwells on the limitations of the paper and areas for future research.

The Uppsala School of internationalisation postulates that firms select markets with low psychic distances when they internationalise. The assumption is that markets with low psychic distances would be similar; hence, a firm would learn in an incremental manner avoiding the shock of entering a drastically different market. However, O'Grady (1996) reported empirical evidence that proved otherwise. The notion of psychic paradox postulated that firms underestimate the differences between perceivably similar markets and hence are not successful in their internationalisation efforts.

Pederson and Peterson (2004) substantiate the concept further when they report that firms moving between these similar markets experience shock in the initial stages when they adapt to the environment of such markets. The initial period of shock continues until the eighth year, by when managers consider themselves to be truly knowledgeable of the market that they have moved into. The effects are reported only amongst firms that adapt and standardized offerings are completely devoid of any shock effects. Evans (2000), in an empirical study of international retailers reports of standardization strategies amongst retailers entering high psychic distance markets. Thus, there is confounding evidence in literature of psychic distance leading to both standardization and adaptation strategies. This apparent contradiction indicates the role of moderating factors in the relationship between psychic distance and format adaptation.

Sternquist (1997) attempts to resolve these contradictions by distinguishing between global and multinational retailers. Global retailers have a standardized format in different countries while multinational retailers adapt their formats to the socio-economic context of the country they are moving into. This classification though useful in distinguishing between different categories of retailers, fails to address the factors that lead to such strategies. However, it indicates that structure of the retailer and it's ideology impact the decision to standardize or adapt. Extending on this thought, an attempt is now made to address these process issues by considering the role of internal firm characteristics. The basic model that has been investigated in this paper is as illustrated in Fig. 1. Psychic distance influences the extent of retail format adaptation depending on the internal characteristics of the firm.
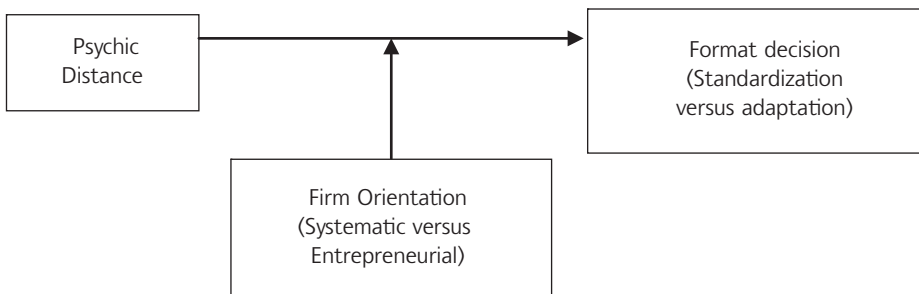

Figure 1. Antecedents to format adaptation

3. Construct Definitions

3.1. Psychic Distance

Vahlne and Weidersheim (1990) defined psychic distance as "factors preventing or disturbing the flow of information between potential and actual suppliers and customers". Lately Evans (2000) subsequently redefined psychic distance as "factors preventing or disturbing firm's learning and understanding of a foreign environment". This refinement was justified on the basis that learning and understanding, rather than the mere access to information are essential in the development of appropriate operating strategies in foreign markets. Thus it is not the mere presence of external environmental factors but the mind's processing, in terms of perception and understanding of business and cultural differences, which forms the basis of psychic distance (Evans, 2000).

Psychic distance in literature has been operationalized in terms of differences in language, business, economic development, legal and political systems, infrastructure and culture. In addition to these factors psychic distance in this paper also included geographic distance as a dimension in line with findings that a combination of psychic distance and geographic distance is a superior measure in market selection than constrained models including only one of them. Thus, *psychic distance can be defined as the distance between the home market and a foreign market, resulting from the perception of economic, social, cultural and geographic differences*.

3.2. Systematic and entrepreneurial retailers

Firms can be classified based on their organizational culture as hierarchical, market centred, clan culture and an adhocracy. Hierarchical cultures emphasize procedures, rules and uniformity, market centred is competition oriented, clan culture emphasizes loyalty to the organization while an adhocracy emphasizes entrepreneurial creativity and flexibility.

Centralization, formalization and specialization are dimensions of structure, which influence entry strategies. Formalization is the degree to which activities and relationships are governed by rules and procedures specialization is the degree to which tasks are divided into unique elements while centralization refers to the extent to which decisions are shared within the social system. Thus, based on these dimensions retailers can be divided into two categories: Systemic and Entrepreneurial.

Systemic retailers are defined as non-autonomous firms with a hierarchical/clan organizational culture and a centralized, formalized and specialized structure.

Entrepreneurial retailers are defined as autonomous firms with an adhocracy/market centric organizational culture and a decentralized, non-formalized and non-specialized structure.

The essential difference between systemic and entrepreneurial firms is the autonomy that the decision-making unit (individual or team) brings forth to an idea or vision and it's subsequent implementation. In an organizational context autonomy refers to action taken free of organizational constraints.

3.3. Retail format

The next category to define is retail format. The retail format, the entity being transferred, is discussed in the retailing literature as a combination of the retail offering and the retail culture. The retail offering comprises of external elements such as atmosphere, price, assortment, service and location elements that deliver the functional, social, psychological, aesthetic and entertainment benefits attracting consumers to

stores. The second, the internal part consists of the retail culture, which determines the retailer's operational strength and strategies. It consists of contracts; procedures and technology that enhance the retailer's ability to evaluate situations identify trends and deal with problems.

The individual external and internal elements can be researched now. Pricing in retail outlets has been classified in literature as EDLP (Everyday low prices) versus a HiLo (high mark-ups with frequent promotions) strategy. Service levels are distinguished on the basis of the range of services provided. They include dimensions such as household delivery, returns policy, credit facilities and in-store guidance. The atmosphere construct consists of stripped down warehouse buildings at one extreme to shopping as lifestyle experiences at the other. Assortment has been distinguished on the basis of the width and depth of the product lines carried. Location strategies vary between a central business district versus suburban focus.

As for the retail culture elements technology is defined in terms of the usage of IT systems in retailing operations while procedures refer to the presence of SOPs (Standard Operating Procedures). Contracts refer to the philosophy of measuring performance internally and with suppliers. The options are to reward outcomes versus rewarding behaviour. Outcome orientation use formal explicit contracts while behaviour-based contracts are based on trust.

4. Typology Of Adaptation Strategies: A Process View

The following section describes a typology of retail strategies based on the definitions that have been developed in the previous section. The objective of the typology is to highlight the differing paths that entrepreneurial and systemic

retailers undertake in their quest to adapt. The typology is used to resolve the contradictions that have been shown to appear in retailing literature regarding the role of psychic distance on format adaptation.

The presented strategies are four: horizontal, perceptual, forced and migrational. The paths followed by systemic (Fig. 2) and entrepreneurial (Fig. 3) retailers are different.

4.1. Horizontal strategies

Horizontal strategies are as is transfers involving no modifications in the retail format elements. It is most likely when a retailer is moving across similar suburbs in an urban market where psychic distances are low. It is also possible with global retailers catering to niche markets where consumers have relatively homogenous demographic and psychographic profiles irrespective of their ethnicity.

A third category of horizontal strategists would be category killers such as Toys R Us or IKEA that exist in a single category and are extremely competitive on account of their scale irrespective of the market that they compete in. However, horizontal strategies are unlikely to work for multi-category mass retailers who need to take into account differences in the environments as they move from one market to another. Based on the above discussion the following propositions have been developed:

Niche retailers follow a standardization strategy irrespective of the psychic distance of the geographical market being entered into.

Category killers follow a standardization strategy irrespective of the psychic distance of the geographical market being entered into.

4.2. Perceptual strategies

Internationalisation process theorists conclude that firms when they are moving from one market to another try to do so in an incremental manner. Barkema, Bell and Pennings (1996) conclude that centrifugal expansion patterns are more successful than random diversified expansion routes. They identify a locational path of learning with respect to firms' engagement in foreign operations. The firms that followed this path of learning not only benefited substantially from their previous experience in the same country but also, though to a lesser extent benefited from previous expansion in culturally adjacent countries.

Hence, it is assumed that firms consciously choose markets that are perceived to be similar to existing markets that they are already present in to reduce the environmental uncertainties in decision-making. However, empirical studies (O'Grady, 1996; Evans, 2002; Alexander, 2002 and Pederson, 2004) show that firms moving between similar environments such as Canada-USA, Brazil-Portugal and Australia-New Zealand underestimate the nuances in cultural and business differences between these similar environments and hence fail in their adaptation strategies. It is in the retail culture elements that are internal to the firm such as management attitude, values and behaviour; and relationships with suppliers and competition, which define the concepts, norms, practices and systems of the retailing firm that needs to be adapted.

4.3. Forced strategies

They happen when retailers move a standardized format from one market to another without any modifications. Typically, it is bound to occur when small retailers devoid of research resources move into new markets to encash opportunities on account of market potential (Goldman, 2001). Global retailers (Sternquist, 1997) also pursue this route. They start by catering to a niche that has similar characteristics across the globe. It is only when the potential of the market justifies expenses on adaptation that they shift from the standardization strategy. The lack of any customisation leads to contrast effects that are stark and would require suitable adaptation (Pederson and Peterson, 2004). Hence, the adaptation process would primarily evolve with the offering elements as they would be subject to external scrutiny and hence would demand action on a priority basis. Forced strategies are emergent rather than any planned intended strategies.

4.4. Migrational strategies

Migrational strategies are when both retail offering and retail culture elements are modified to adapt to the new market. It is the most appropriate strategy, as the format would be customized to requirements of the new market. However, the decision needs to be traded off against firm resources available as well as the potential and nature of market being entered into (Goldman, 2001).

As shown in Fig. 2 systemic corporations with "risk minimizing processes" would find it difficult to voluntarily accept a migrational strategy, as it would entail relaxation in standard operating procedures, which is contrary to the centralized and formalized nature of the organization. In such circumstances, the firm would typically adopt the perceptual path before undertaking migrational exercises.

Additionally the perceptual path would be a "superior learning path" as the firm would have already experimented in a phased manner with modifications in the retail culture elements, which is the more difficult element to modify on account of it being internal and tacit to the company. Migrational strategies would now entail only a superficial change in the external offering

High Psychic Distance

Forced   Migrational

Standardization ———————————————————— Adaptation

Horizontal   Perceptual

Low Psychic distance
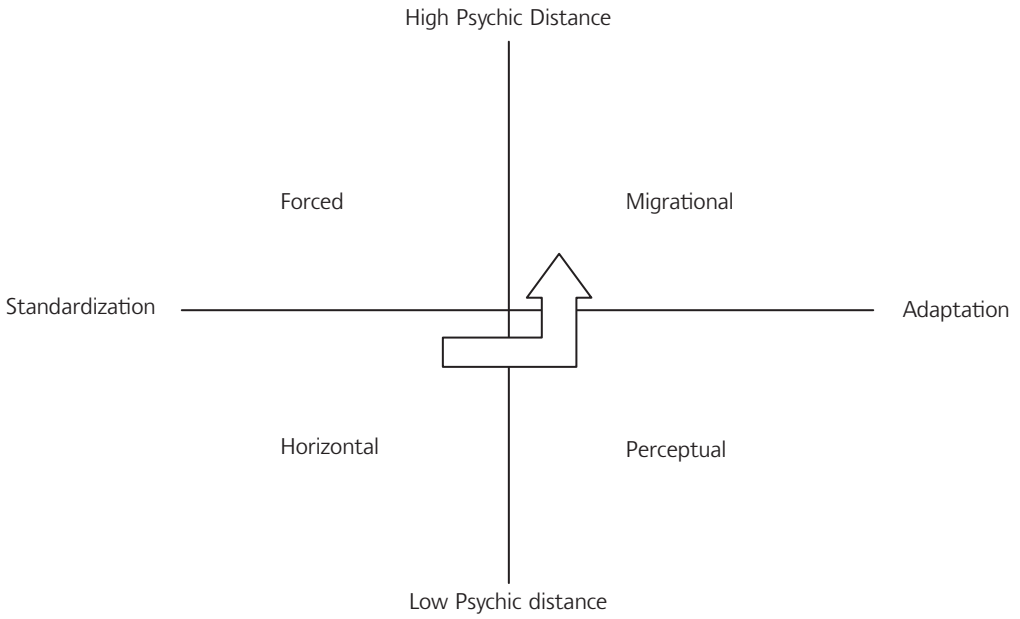
Figure 2. Retail format adaptation process – systemic retailers

High Psychic Distance

Forced   Migrational

Standardization ———————————————————— Adaptation

Horizontal   Perceptual
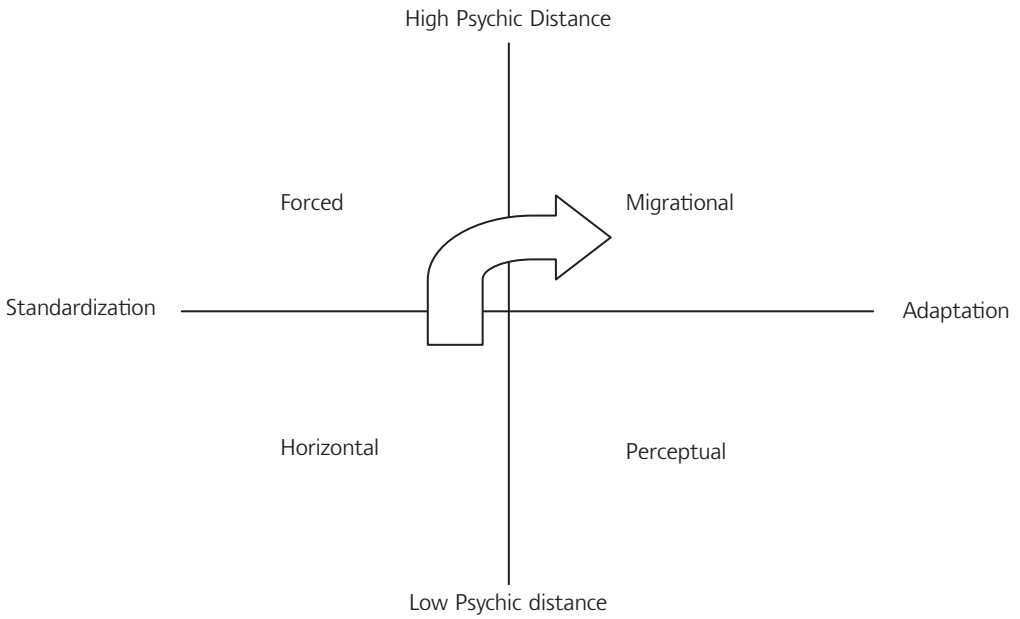
Low Psychic distance

Figure 3. Retail format adaptation process – entrepreneurial retailers

elements that can be mastered with suitable investments in consumer and market researches.

Systemic retailers undertake a perceptual route to migration.

On the other hand as illustrated in Fig. 3, risk taking entrepreneurial firms with their limited resources are more likely to take the forced route to migration. The overwhelming objective in this instance would be to take advantage of the opportunity of a high potential market with "similar operating environments". Typical examples would be the large number of small retailers from a variety of countries and their entry into China (Goldman, 2001) to primarily acquire first mover advantages and encash on the enormous potential of the market.

Entrepreneurial firms undertake a forced route to migration.

Risk Propensity And Firm Innovativeness

The internal characteristics of a firm such as structure and culture have a role to play in organizational innovativeness. Centralization and formalization has been found to be negatively associated with innovativeness. However, implementation of innovations is encouraged with increases in centralization and formalization. As Cundiff (1965) points out comparative retailing involves either an adaptation or adoption decision. Adoption (standardization) would involve a direct transfer of an innovation in a retail format while adaptation involves changing the format innovation to the requirements of the social system that the firm is entering into. The innovation process in these two cases is different.

In the case of adoption, the agenda setting process is problem initiated while in the case of

the latter it is innovation initiated. In the latter case, the awareness of a new idea results in finding a new need for it by initiating the process of adapting it to the organizational context. Incrementalism and risk avoidance is hence the defining characteristic of such systems and is the antecedent to the perceptual path followed by systemic retailers to migration.

Systemic retailers are characterized by an innovation led approach to agenda setting. Systemic retailers are characterized by an incremental approach to adaptation.

On the other hand, problem initiated innovation processes lead to a radical reorientation, frame-breaking change, radical innovation; and revolution. The focus shifts to finding a solution to the problem and hence restrictions favouring standardization are relaxed. The social risk taking ability of entrepreneurial firms allows them to incorporate changes that are a radical departure from past behaviour. Hence, retail culture elements are modified resulting in change that has been classified varyingly in literature as radical innovation, frame braking change, revolution etc. It is in such circumstances that the forced route to migration of entrepreneurial firms comes into play.

Entrepreneurial retailers are characterized by a problem led approach to agenda setting. Entrepreneurial retailers are characterized by an innovation approach to adaptation.

However, it is important to note that risk comprises of two dimensions – social and financial. Social risk is characterized by behaviour that is contrary to the established norms and conventions of the society that the decision maker belongs to. The social risk propensity of entrepreneurial retailers is moderated by their limited ability to take financial risks. Hence their approach can at best be described as a risk neutral approach in contrast to systemic

retailers that are completely risk averse on account of their high degree of centralization and formalization.

Systemic retailers adopt a risk avoiding approach to adaptation.

Entrepreneurial retailers adopt a risk neutral approach to adaptation.

Thus, psychic distance between markets leads to either standardization or adaptation of retail formats depending on whether a retailer is systemic or entrepreneurial in its orientation. A systemic orientation reduces the retailer's ability to take risks and adaptation is characterized by an incremental approach to innovation. An entrepreneurial orientation is characterized by a standardization approach in initial stages. However, externalities force innovation in such organizations and the resultant change is affected in a radical manner by not only changing the external retail offering but also the more difficult to change retail culture elements that are internal to the organization.

Trade in services in SEE countries

International trade in services is influenced by a variety of economic factors, amongst which the level of development seems to be the most important one. As the share of services in the national economy and in total employment rises with the level of development, the importance of trade in services for a country will also increase over time.

The constraints imposed by deficiencies in collecting data on services trade, the lack of accurate data to measure trade flows in services according to the four modes of supply and the gap in data availability allow only a limited interpretation of statistical information. Notwithstanding these limitations, some insights into the present situation concerning trade in services in the SEE countries could be obtained with a view to identifying their existing and potential comparative advantages and determining the factors that are relevant for the development of their services trade. The study is based mainly on BMP data (IMF and EU New Cronos databases), but additional information from FDI- and migration-related statistics as well as sectoral statistics compiled by competent international organisations have been also drawn upon in the analysis.

Table 1. Trends in SEE goods and services trade

Millions of US dollars	1990	1993	1995	1998	2000	2001	Average Growth Rates 1990-2001
SEE Total trade	32096.7	38209.70	57778.8	69886.20	78589.6	87647.4	10.94
SEE Goods Trade	29202	30561.20	46524.3	54890.50	61738.2	68684.7	10.65
SEE Goods Exports	12205.1	13688.90	20073	22640.60	24681.6	26340.8	8.53
SEE Goods Imports	16996.9	16872.30	26451.3	32249.90	37056.6	42343.9	12.19
SEE Services Trade	2894.7	7648.50	11254.5	14995.70	16851.4	18962.7	12.02
SEE Services Exports	1478.5	4417.7	5806.2	8540.1	9822.6	11271	12.42
SEE Services Imports	1416.2	3230.8	5448.3	6455.6	7028.8	7691.7	11.45

Source: IMF: Balance of Payments Statistics Yearbook, 2002

a) Overview of trends in goods and services trade in SEE

General trends

At the regional level, trade in services registered quite a considerable expansion in recent years. For a sector once considered to be untradable, there has been an important increase over the past decade in the proportion of total trade accounted for by services. This is particularly true for post-communist countries where the service sector was relatively small, given the policy option of central planners to suppress the activities of services, considered to be unproductive.

Table 1 presents the comparative evolution of total trade in goods and services for the SEE region.

As shown in table 1, during the period 1993 – 2001, the current value of SEE services trade increased at an average rate of 12 percent, faster than the average growth rate of goods trade of 10.9 percent. Similarly, with growth rates over 11 percent, services imports appear to be also

a dynamic component in SEE countries' trade. However, services exports grew faster than services imports – as opposed to trade in goods where growth of imports surpassed the growth of exports. Throughout the period, trade in SEE countries recorded declines in dollar values in 1991 and 1998; however, the decline in services trade was less pronounced than that in goods trade. Furthermore, Table 6 presents the shares of goods and services exports and imports in the total trade of the SEE countries. Services exports recorded the highest growth rate, increasing their contribution to total SEE exports (goods and services) from 24 percent in 1993 to almost 30 percent in 2001. With the export of services accounting for 21 percent of total exports, the SEE countries are reaching the shares registered by other transition economies or even developed countries. Services imports account for more than 15 percent of total imports.

Exports and imports of total services in individual SEE countries

Although the SEE countries as a group accounted for only approximately 1 percent of total world

Table 2. Share of goods and services in total SEE trade

	1990	1993	1995	1998	2000	2001
Total SEE Exports (Millions of US dollars)	13683.60	18106.6	25879.20	31180.70	34504.20	37611.80
Goods Exports in total SEE Exports (%)	89.20	75.60	77.56	72.61	71.53	70.03
Services Exports in total SEE Exports (%)	10.80	24.40	22.44	27.39	28.47	29.97
Total SEE Imports (Millions of US dollars)	18413.10	20103.10	31899.60	38705.50	44085.40	50035.60
Goods imports in total SEE imports (%)	92.31	83.93	82.92	83.32	84.06	84.63
Services imports in total SEE imports (%)	7.69	16.07	17.08	16.68	15.94	15.37

Source: IMF: Balance of Payments statistics, 2002

Table 3. Evolution of services exports in SEE countries

	VALUE (MILLIONS OF US DOLLARS)						AVERAGE GROWTH RATE	SHARE OF SERVICES EXPORTS IN TOTAL EXPORTS (%)					
	1990	1993	1995	1998	2000	2001	1990-2001	1990	1993	1995	1998	2000	2001
Albania	31.5	77.6	98.8	86.4	447.8	534.3	29.35	8.91	41.01	32.53	29.35	63.65	63.70
Bosnia and Herzegovina			229	304.8	261.3	288	3.33			60.10	31.86	18.50	19.80
Bulgaria	837	1171.3	1431.4	1787.9	2174.8	2419.2	10.13	12.04	23.91	21.12	29.89	31.07	32.14
Croatia		2285.8	2223.4	3949.1	4080.9	4872.7	9.92			36.93	32.98	46.30	47.19	50.63
Macedonia		84	185	131.3	303.1	233.4	13.63		7.37	13.31	9.84	18.71	16.83
Moldova			144.6	149.6	163.7	170.4	26.54			16.36	18.86	25.57	23.03
Romania	610	799	1494	1217	1767	1994	11.37	9.56	14.04	15.89	12.78	14.56	14.90
Serbia and Montenegro			688	914	624	759	1.98				24.23	26.59	28.51

Source: IMF: Balance of Payments statistics, 2002

Table 4. Evolution of services imports in SEE countries

	VALUE (MILLIONS OF US DOLLARS)						AVERAGE GROWTH RATE	SHARE OF SERVICES EXPORTS IN TOTAL EXPORTS (%)					
	1990	1993	1995	1998	2000	2001	1990-2001	1990	1993	1995	1998	2000	2001
Albania	29.2	161.9	156.5	129.5	429.3	444.1	28.07	6.02	21.21	18.72	13.76	28.63	25.01
Bosnia and Herzegovina			252	230.7	224.1	228.4	-1.39			18.89	5.71	5.55	5.51
Bulgaria	600	724.3	1277.9	1415.1	1668.8	1879.2	10.13	7.47	13.57	19.65	75.58	21.76	21.95
Croatia		1147.6	1361.1	1887.1	1828	1940.6	9.92		19.87	14.95	17.91	19.04	18.13
Macedonia		283	385.4	304.3	357.9	336.7	13.63		21.85	21.29	15.08	16.03	17.61
Moldova			196.4	196.9	206.7	218.7	26.54			19.53	16.03	21.20	19.86
Romania	787	914	1819	1871	2021	2203	11.37	7.95	13.18	16.09	14.62	14.36	13.31
Serbia and Montenegro				421	293	441	9.75				7.99	7.32	8.36

Source: IMF: Balance of Payments statistics, 2002

exports of commercial services in 2001, services as a share of total trade in individual countries were of undisputed importance. Analysing the evolution of services exports and imports for each country reveals the divergence among the individual SEE countries. Tables 3 and 4 show the exports and imports values with their average growth rates in all SEE countries as well as their

Table 5. Specialisation index for the SEE countries

	1990	1993	1995	1998	2000	2001
Albania	0.04	-0.35	-0.23	-0.20	0.02	0.09
Bosnia and Herzegovina			-0.05	0.14	0.08	0.12
Bulgaria	0.16	0.24	0.06	0.12	0.13	0.13
Croatia		0.33	0.24	0.35	0.38	0.43
Macedonia		-0.54	-0.35	-0.40	-0.08	-0.18
Moldova			-0.15	-0.14	-0.12	-0.12
Romania	-0.13	-0.07	-0.10	-0.21	-0.07	-0.05
Serbia and Montenegro			1.00	0.37	0.36	0.27

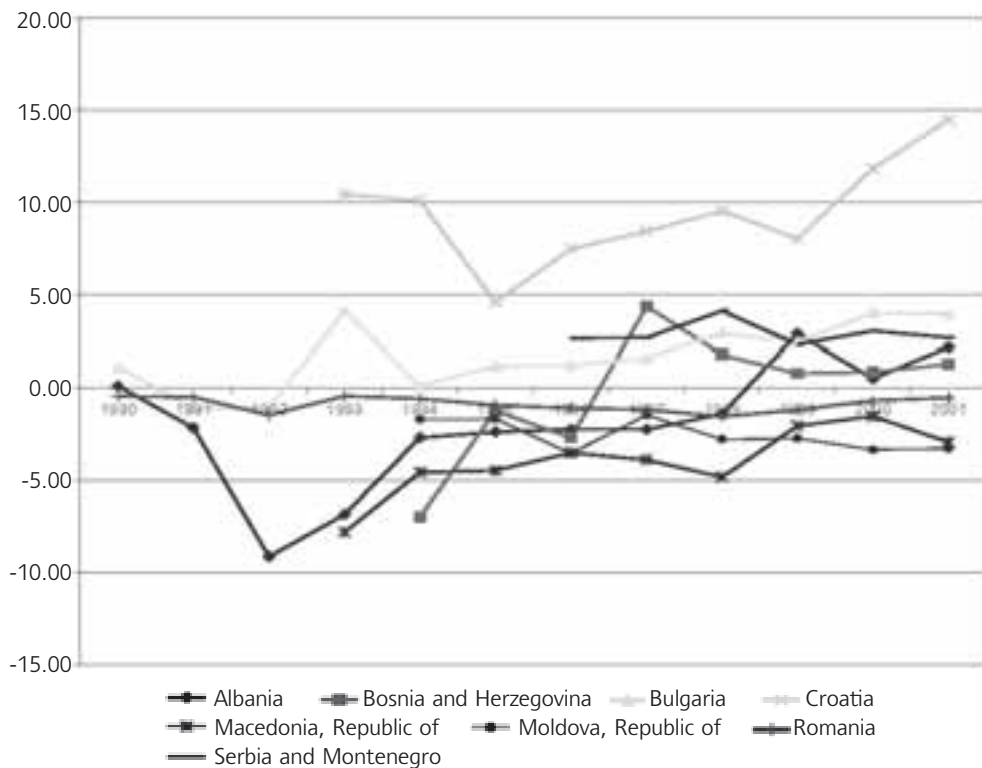*Source: IMF: Balance of Payments statistics, 2002*

Figure 4. Balance of services as % of GDP

Source: IMF: Balance of Payments statistics, 2002

contribution to total exports and imports in these countries.

While Albania and Moldova exhibited the most dynamic evolution of services exports and imports with average annual growth rates of over 25 percent, it should be highlighted that at the beginning of the period, the levels of services exports and imports for both countries were extremely low. Macedonia, Bulgaria and Romania record two digit growth rates, while the growth rate of the other SEE countries is in the range of 2 to 10 percent, with only Bosnia and Herzegovina registering negative growth rates for services imports.

The shares of services exports and imports in total exports and imports have increased in all SEE countries. Noteworthy are Albania's and Croatia's contributions of services exports in total exports of over 50 percent. In addition, Table 5 shows the trade specialisation index for all SEE countries.

The index is calculated as net trade in services divided by total trade in services, with a positive number implying a net exporter and a negative number a net importer. The table shows that the degrees of specialisation did not change for most of the countries throughout the period 1990-2001. Bulgaria and Croatia were net exporters during the entire period (Serbia and Montenegro during 1998-2001), while Macedonia, Moldova and Romania were net importers of services. Only Albania and Bosnia and Herzegovina changed from net importers to net exporters. These trends are reflected in Figure 4 that presents the evolution of the SEE countries' services trade balance as a percentage of GDP.

On the whole, services contributed substantially to the reduction in balance of payments deficits, but their impact varied from one country to another as import figures also raised in some

countries. That is why, despite net positive transfers of capital, Macedonia reported a substantially larger deficit in its balance of trade, while in Croatia and Romania the larger imbalances of previous years were partly cleared. In Bosnia and Herzegovina, exports of goods and services continued to stagnate at low levels, but the drastic reduction in imports helped to reduce the balance of trade deficit despite a fall in financial transfers under the Dayton agreement.

b) Sectoral composition of services trade

Concerning the sectoral composition of trade in services, it is difficult to get a clear picture, as available data are not sufficiently disaggregated by sector. Existing trade statistics in services cover three broad categories, namely transport, travel and other services, while the category "other services" contains a heterogeneous set of services including construction, communication, finance, insurance and other business services.

Bulgaria, Macedonia, Moldova and Romania enjoy a comparative advantage in **transport services**. Among the individual transport components, all these countries have a comparative advantage in both passenger and freight transport. While the RCA index for the other SEE countries is below 1 – suggesting that these countries do not have at present comparative advantage in this sector, a study on transport services undertaken by the TINA Institute indicates that these countries do have a potential/future comparative advantage in this sector.

The study indicates that the potential for growth in freight transport in all SEE countries is much more vigorous in international transport than in domestic transport: it would seem that international traffic more than doubled (120 and 110 % for exports and imports) (Table 6).

Both road and rail appear to be benefiting from this growth, though to very different extents: road traffic can often triple its volume, whereas the volume of rail traffic only seems to increase by 50 % on average. Because of this, there is a decline in the share of rail in the modal split in international traffic as well, and a certain decline in inland waterway traffic, though this is less important since international traffic on inland waterways is doubled.

Balance of Payments Database (CHELEM-BOP) contains data on balance of payments, stretching back to 1996, and covering the whole world. Figures are available for 1999 countries, as well as for the 61 elementary zones of the common classification, and for all international organisations. The data is provided in current US dollars (millions) adopting the 131 headings of the IMF, and is completed and corrected. It includes aggregate figures for 49 headings for invisible flows, capital movements and monetary transactions.

The TINA (*Transport Infrastructure Needs Assessment)* Project is designated to initiate the development of a multimodal transport system in the EU candidate countries.

Table 6. Index total transport trade: Projections 2015 (index 1996 = 1000)

Country	Domestic transport					Export						Import			
	road	rail	inl. ww.	total	rest	road	Rail	inl. ww.	sea	total	rest	road	inl. ww.	sea	total
Poland	193.2	85.6	200	172.8	263.4	290.8	113.6	268.7	191.5	208.8	151.9	395.6	248.2	219.7	244.6
Czech Republic	145.6	82.3	157.5	139.7	320.4	299.3	117.2	329.9	248.4	188.9	135.4	403.1	247.1	254.1	201.1
Slovak Republic	197.8	111	225	182.8	227.8	728.7	236.2	198.2	322.4	268.5	295.7	1008.4	241	320.2	212.3
Hungary	177.7	88.4	134.9	170.5	375.7	477.3	186.1	339.4	316.6	316.4	147.5	409.9	211	283	201.7
Romania	146.6	57.9	126.7	130.3		260.6	137	150	179.5	176.4		277	147.6	145.8	150.5
Bulgaria	147.9	87	153.4	137.6	163	225.4	94.2	166.2	194.6	189.6	497.5	253.3	140.9	128.6	168.6
Albania	240.3	229.5		240	421.7	392.6			450	436.5	456.3	330.8		284.9	298.7
Estonia	275.9	46.6		170	137.1	413.6	143.8	232.5	242.8	246.5	163.3	1469.3	263.9	239.2	214.7
Latvia	189.2	109		181.1	104.3	270.2	231.7	361.8	266.7	267	172.9	285.2	267.9	243.6	219.5
Lithua-nia	191.3	56.1		175	309.9	335.3	84.4	738.9	211.9	196.3	175.7	574.7	336	263	250.6
Mac-edonia	204.5	185		201.4	314.7	355.9	312.5	203.7	348.2	330.4	233.6	212.9	208.6	253.4	213.8
Bosnia and Herze-govina					220	251.2	162.2	194.9	207.1	219.9	3	266.7	209.8	242.7	348
Slovenia	185	108.8		179.4	427.2	318.4	216.9	386.1	300.3	102	324.9	176		222.4	256.2
TOTAL	171.1	81.1	128.3	157.7	258.4	323.8	282.8	207	220.7	187	420.9	147.3	192.4	176.3	210.9

Source: TINA (Transport Infrastructure Needs Assessment) Study

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For passenger transport, the study shows strong growth in international mobility for all SEE countries, up by 85 % and doubling in many countries; road benefits initially, but also rail, which would appear to rise significantly, though less quickly, from 50 to 60 percent (Table 6).

Conclusion

We can make followed conclusions:

1. Systemic retailers are characterized by an innovation led approach to agenda setting. Systemic retailers are characterized by an incremental approach to adaptation.

Entrepreneurial retailers are characterized by a problem led approach to agenda setting. Entrepreneurial retailers are characterized by an innovation approach to adaptation. Systemic retailers adopt a risk avoiding approach to adaptation. Entrepreneurial retailers adopt a risk neutral approach to adaptation.

2. Retail institutions are a function of the socio-cultural environment of the society they operate in. As the economy of a region develops, retailers from other parts of the map (countries or provinces) enter to take advantage of growth opportunities that are present. The extent to which they modify their existing formats to suit the environment of the market they move into determines the extent of change that the retailer themselves are subjected to and the transformation that they bring to retailing institutions in the market that they are entering. Psychic distance is the construct that is used in summing up these environmental differences. Existing retailing literature is contradictory as psychic distance is shown to lead to both standardization and adaptation decisions. This paper resolves this anomaly by considering the

moderating role of internal firm characteristics. Psychic distance leads to standardization or adaptation strategies based on the internal characteristics of a firm such as structure and culture. This study has classified retailers as entrepreneurial or systemic based on the dimensions of autonomy, innovativeness and risk propensity.

3. Entrepreneurial firms follow a forced route to adaptation that is characterized by a problem led initiation to agenda setting leading to radical innovations in retail formats. Systemic firms follow a perceptual route to migration that is characterized by an innovation led initiation to agenda setting. Systemic firms enter markets with low psychic distances and suitably adapt themselves over an extended period of time to subtle differences in the environment. They are exposed to shock effects on account of psychic paradox during initial entry, which they overcome by making changes to the retail culture elements governing their relationships with suppliers and their use of new technologies.

4. Entrepreneurial retailers take advantage of the environment by focusing on niches. Hence, irrespective of psychic distances they standardize their formats. They adapt only when the environment forces them to adapt on account of new opportunities or a crisis situation. Their route to innovation is problem initiated and hence their innovation is a radical departure from the status quo. This is in direct contrast to the incrementalism practised by systemic retailers.

Finally, to conclude retailing systems in emerging countries differ markedly from those in more developed systems on account of the large concentration of small neighbourhood stores. Retailing literature in the past has concentrated on the large format organized retailers. The classificatory schema provided in this study does not discriminate retailers on the basis of size. Hence, an opportunity has been provided for

future research in developing countries where retailers can be studied irrespective of their size and level of organization.

Additionally prior literature has been dominated by the choice of an adaptation or standardization strategy. The process through which different retailers arrive at this decision has been ignored. This study has attempted to redress this gap by looking at how the organizational characteristics of a retailer impact it's innovation and risk taking abilities which ultimately determine the strategic choice of a retailer.

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