The Entry Strategy of Retail Firms into Transition Economies

International entries into transition economies occur infrequently and involve considerable uncertainty. This raises the question whether managers, who have limited own experience, take their competitors' prior decisions into account when deciding on their own entry timing and size and whether there is value in doing so. To address these questions, the authors estimate a sequential hazard/Poisson regression model on the top 75 European grocery retailers' decisions to enter the Eastern European market. Indeed, firms pay close attention to prevailing practices in their industry. Prior entries first serve as legitimation but eventually become a deterring factor. Moreover, rather than just imitating the most popular or modal decision when determining the own entry timing and size, managers pay closer attention to the actions of their home competitors, react to prior entries of same-format competitors differently from those of different-format competitors, and adjust the observed industry practice for the specificity of their own resources. The authors show that managers are justified in taking the combined industry wisdom into account; deviations from prevailing industry practice, in terms of both timing and size, hurt the efficiency of their operations in subsequent years. Thus, attempts to develop own, distinct entry rules tend to be dysfunctional. Moreover, corrective actions are easier to implement along the size than along the time dimension; the detrimental effects of entering at a different time from the industry norm persist and even become amplified over time, whereas the negative impact of size deviations is temporary.

Cross-country capacity expansion is a fundamental option of strategic diversification, but it is still little understood (Martin, Swaminathan, and Mitchell 1998). On the one hand, many firms are reluctant to commit substantial resources to a new host market quickly, especially in light of the considerable uncertainty that often accompanies foreign-market entry and the realization that investments are largely sunk when initial expectations fail to materialize. On the other hand, firms in many industries tend to be confronted with a saturated market demand in their home country, and they often fear being left out of interesting growth opportunities abroad as a result of investing too little, too late. Because of this ambiguity, there is a wide variety of entry strategies, even within the same industry. Some players follow a cautious expansion strategy and enter late on a limited scale, and others try to establish a substantial presence as quickly as possible.

In this article, we provide a conceptual framework to understand the variability in firms' entry timing and size, and we argue that these decisions are influenced not only by the firm's own international experience (as Mitra and Golder [2002] demonstrate) but also by the internationalization activities a company observes with its competitors. Although it could be argued that markets with less direct competition are more attractive, firms may actually orient their own international expansion decisions toward the actions of or toward a subset of their competitors. Especially in the light of limited own experience and considerable demand uncertainty, firms may need to resort to inter- rather than intraorganizational learning to evaluate and legitimize alternative expansion options. If such interorganizational learning takes place, relevant questions become which competitors constitute the reference group, whether the presence of more competitors always offers a legitimation effect, and whether there is a critical number beyond which a deterrence effect dominates. These issues ultimately lead to the questions whether and to what extent it pays to adhere to “industry wisdom.”

Using a sequential hazard/Poisson regression model, we test the proposed conceptual framework on a data set that covers all the top 75 European grocery retailers' decisions to expand into Central and Eastern Europe (CEE). The grocery retailing industry has only recently begun to explore the opportunities that foreign expansion offers. As recently as the early 1990s, foreign sales accounted for less than 5% of the turnover of the world’s top retailers, thus lagging most of their suppliers. However, this pattern is rapidly changing. For example, the 15 leading international grocery retailers already realized more than 25% of their 2003 sales through their international operations (M+M Planet Retail 2005) and are known to grow faster abroad than domestically. Still, despite this growing international activity, many grocery retailers appear to be struggling to develop the competencies needed to compete and survive in this more global arena (Kumar 1997). Few succeed in obtaining com-
parable margins and returns through their foreign operations compared with their home markets, and many do not break even. Some of these disappointing results have been attributed to the notion that retailers often appear to be motivated less by the chance of creating value in a new market than by the fear of being left out by their competitors ('The Economist' 1999), suggesting that interfirm imitation is indeed an issue.

**Contribution**

So far, the academic literature on foreign entry and expansion decisions has focused mostly on performance consequences. For example, Luo (1998) studies the short-term performance consequences of the timing, entry mode, and degree of diversification of foreign entries in the light industry, and Mascarenhas (1997) investigates the impact of entry size and order of entry in the oil rig market. In the retailing industry, Gielens and Dekimpe (2001) study the long-term performance consequences of standardization, mode, timing, and size of entry.

Another stream of literature focuses on which firm and market factors drive initial entry decisions. As such, questions about the extent to which rivals’ actions are followed and imitated, the match between home- and host-market profile, and which firm characteristics tend to be associated with foreign entry become relevant. Answering these questions helps managers not only select entry strategies given the host-market situation and their own firm profile but also predict the type of competitors they are likely to face at the time of entry (Fuentelsaz, Gomez, and Polo 2002).

We extend this latter research stream in four ways. First, although recent research has considered the timing of foreign entry (Mitra and Golder 2002), the size decision has been largely ignored. Still, international entries can be considered “lumpy” investments of firm resources in an environment characterized by uncertainty about future performance, which necessitates attention to two key dimensions: when investments in foreign operations are made and how much resources are invested (Bar-Ilan and Strange 1999). Ayal and Zif (1979) argue that firms can choose between two expansion alternatives. To overcome resource and information constraints, they can act cautiously and postpone major investments. In contrast, to make sure not to forgo opportunities, firms may enter quickly and at full force. Both options have different timing and size implications. If retailers have different firm-specific resources and/or if managers differ in their interpretation of various market signals, the timing and extent of their entry may vary considerably. We develop a framework that helps explain this variability.

Second, we focus on the impact of interfirm learning from observing rival foreign activities. After controlling for the intraorganizational learning effects identified in prior research (Mitra and Golder 2002), we assess whether interorganizational learning has any further explanatory power. Moreover, in line with Debruyne and Reibstein’s (2005) recent work, we argue that firms do not treat their competitive landscape as homogeneous but react more to some moves than to others. Firms may compose their competitive reference group in various ways, and we assess the impact of two reference schemes. First, we consider whether firms react differently to home than to foreign competitors. Second, we consider whether retailers with a similar store format constitute the reference group that is imitated or avoided.

Third, we reflect on the costs of deviating from industry practice. If competitive entry decisions are monitored closely, to what extent does it actually pay to adhere to this “combined industry wisdom”? Can managers turn to prevailing practices in the industry to learn which decisions are good or even best (Anderson 1988; Geletkanycz and Hambrick 1997)? We study whether firms whose entry timing and size conform to the pattern of decision making in the industry (as captured in our descriptive models) perform better than firms that deviate from these rules. Moreover, we evaluate whether these performance premiums are temporary or permanent and for which decision, timing or size, is adherence to industry practice more critical.

Fourth, we consider all entries made by the top 75 Western European grocery retailers in 11 CEE transition economies. Entries into these economies provide an ideal setting in which to assess potential imitation and competition effects. Transition economies constitute a major growth opportunity in today’s world order (Arnold and Quelch 1998). They are also characterized by a substantial amount of environmental uncertainty, making organizational learning both more difficult and essential (Luo and Peng 1999). Moreover, all CEE markets opened up and became an investment opportunity to all retailers at the same time. However, instead of witnessing an undifferentiated rush into all these markets, entry patterns differed substantially across both retailers and host markets.

Research on emerging markets has been relatively neglected in the marketing literature. Still, “these countries represent the growth and future of [U.S.] companies” (Steenkamp 2005, p. 7), and there is increasing evidence that multinational corporations should rethink their traditionally deployed marketing strategies when dealing with emerging markets (Arnold and Quelch 1998): that is, they should not necessarily use their “developed-world” decision rules as a default option.

**Conceptual Framework**

In every entry-timing and -size decision, firms must consider market uncertainty and the potential irreversibility of investments (Ghemawat 1991). Because of the perceived opportunity costs or because firms do not want to commit themselves (yet) in the midst of high uncertainty, they may be reluctant to enter a specific market. Indeed, early and extensive commitments tend to reduce flexibility and increase risk exposure (Miller and Folta 2002). This applies to every foreign investment, but it is especially relevant in our setting. Export opportunities tend to be missing in the retail industry (Erramilli and Rao 1993). To reach potential customers, retailers must set up stores, which requires forging logistic networks, developing relationships with new suppliers, and managing assortments of thousands of products. This constitutes a considerable investment that is
largely sunk after it is made. Moreover, there is consider-
able uncertainty on the demand side. Local consumer tastes
may differ from those in the home country, and the concept
of modern retail distribution tends to be unfamiliar in most
emerging economies (Dries, Reardon, and Swinnen 2004).
In addition, Western retailers initially did not have any
experience operating in such markets, and the extent to
which macroeconomic and institutional factors would
change was unclear.

To explain the timing and size decision when firms
enter transition economies, we consider how firms may
obtain information about the attractiveness of these mar-
kets. Specifically, we study the extent to which the presence
of other retailers may legitimize or deter entry. Apart from
this interorganizational knowledge transfer, we also
acknowledge the value of intrafirm knowledge derived from
a given retailer’s own experience in similar markets, and we
control for other firm resources and various host-market
characteristics (for a graphic representation of our concep-
tual framework, see Figure 1).

**Interretailer Information**

Lack of accurate information about the retail opportuni-
ties in a new market increases uncertainty and may delay entry
(Martin, Swaminathan, and Mitchell 1998). However, prior
decisions by other retailers may provide crucial information
about the success potential of a foreign venture (see, e.g.,
Henisz and Delios 2001). Following what seems to be the
industry norm reduces uncertainty and enhances legitimacy
because a given practice is often viewed as appropriate.
Thus, a firm’s initial urge to remain cautious is expected to
decrease when rival players enter the host market.

In contrast, other researchers have emphasized the view
that rival players tend to decrease host-market opportuni-
ties. With every rival that enters, market competition
becomes tougher, raising a barrier to further entry. Cotterill
and Haller (1992) point out that especially in the context of
grocery retailing, aggressive responses to subsequent
entries are common.

The ecology literature (Hannan and Freeman 1977) rec-
conciles both views, arguing that the presence of rivals ini-
tially facilitates a process of social recognition or legit-
imization and therefore attracts new entrants into the host
market. Still, as competitive investments in the host country
increase, the best geographical locations become pre-
empted, and some interesting market opportunities become
deppleted, creating a deterring effect that eventually domi-
nates the legitimization effect. Following this line of rea-
soning, we expect that there are two opposing forces at
work: rival imitation and deterrence. Although these forces
are not directly measurable, we use them to derive a testable
hypothesis about the dependence between the entry rate in a

![FIGURE 1
Conceptual Framework](image_url)

**Interretailer Information**

- Home versus foreign players
- Same-format versus different-format players
- First versus later entrants

**Intraretailer Information**

- Relevance of prior experience
  - Near-market cultural knowledge
  - Near-market economic knowledge
- Extent of international experience
  - Regional
  - Worldwide

**Control Variables**

- Firm characteristics
  - Private-label share
  - Firm size
- Host-market attractiveness
  - Distance from home market
  - Cultural
  - Economic
  - Geographic
  - Extent of liberalization
  - Strength of local players

**Entry Decisions**

**Speed of Entry**

**Size of Entry**
given country and its competitive density. This dependence has been found in many contexts to take the form of an inverted U shape (for an extensive review, see Carroll and Hannan 2000).

As is postulated in competitive cognition theory (e.g., Debruyn and Reibstein 2005), companies may not view their competitive landscape as homogeneous and thus may not attach equal weight to all potential competitors. As such, the relevant consideration set may not consist of all players in the industry but rather only those retailers with which they share some key attributes (Guillén 2002). We consider two kinds of commonalities that may drive how retailers perceive their competitive environment: (1) country of origin and (2) retail format.

The impact of home versus foreign rivals. Information about the expansion process and relative success of domestic rivals not only may be easier to obtain but also may be perceived as more relevant than information from other entrants. Because of their common background, observing how the home-market rivals operate in the new host market may be more effective in reducing uncertainty. Moreover, retailers may be more inclined to monitor their home rivals closely because they may fear the potential cross-subsidization toward the home market that might result from a successful international expansion (Flowers 1976).

The impact of same-format versus different-format retailers. Retailers may be influenced more by firms with a similar value proposition. Retail formats differ in terms of their assortment size and composition, their price and service level, and/or the overall perceived quality of their products (Kahn and McAlister 1997). On the one hand, the experience of rivals that operate a similar store format may be more informative than that of different-format retailers, resulting in a more pronounced legitimization effect. On the other hand, because same-format rivals tend to target the same customer segment in a comparable way, their presence may result in intense competitive retaliation and opportunity reduction, thus creating a strong deterrence effect.

Finally, we consider whether the first entrant of a given type (domestic or foreign, same format versus different format) creates a differential imitation effect. Other players may believe that the pioneer exploits information asymmetry and can capitalize on superior information to identify interesting market opportunities better or more quickly (Carow, Heron, and Saxton 2004; Lieberman and Montgomery 1988). Therefore, the pioneer’s entry may give players a stronger signal about the potential of the market and may significantly reduce the perceived risks of also entering.

Intraretailer Information

Competitive actions may not be the only relevant source of information for the entry-timing and -size decision. Prior experience, especially in culturally and economically similar markets, may also be an important source of knowledge (Mitra and Golder 2002).

Extent of international experience. Experience has been shown to be a prime source of learning in organizations (Luo and Peng 1999). As firms gain experience in assessing prevailing business practices and consumer preferences in various host markets, the perceived risk of further international expansion is reduced. We distinguish between worldwide and regional experience. The former refers to a firm’s global presence without reference to a specific market (Li 1994). Operating in many countries increases the variety of events to which a firm is exposed, which leads to a more extensive and diverse knowledge base. The latter is acquired through operations in a specific target area because such operations cause logistical and more extensive intelligence-gathering advantages in that region (Li 1994; Tan and Vertinsky 1996). Both forms of experience are believed to increase the speed and size of entry.

Relevance of prior experience. The more similar a potential host market is to other markets with which the firm already has experience, the easier is the transfer of knowledge. Following the work of Mitra and Golder (2002), we consider the impact of prior experience in both culturally and economically similar markets. The former, which is referred to as near-market cultural knowledge, reduces potential acculturation problems (Barkema, Bell, and Pennings 1996), whereas its economic counterpart helps replicate the firm’s business in countries in which customer income and the cost and quality of resources are similar (Ghemawat 2001). Both forms of market knowledge are believed to impact the speed and size of entry positively.

Control Variables

To assess the impact of the aforementioned inter- and intrafirm information sources, we control for two firm-specific characteristics. We also control for the attractiveness of the host country.

Firm Characteristics

Assortment policy. Most retailers entering new (especially emerging) markets are unknown to their potential customers. Retailers that rely on private labels must convince customers in the new markets not only to switch stores but also to switch brands. Moreover, investments in private-label programs can be interpreted as a commitment to the home market, which reduces the number of resources available for foreign expansion. In terms of the branded products retailers want to carry in their foreign stores, they may also not have as comfortable a position in manufacturer–retailer negotiations as other retailers (Kumar 1997). Finally, private-label programs require the retailer to carry a lot of functions and costs normally taken care of by the manufacturer. Performing these functions in a new host market is not evident. As such, a strong commitment to private labels may have a negative impact.

Firm size. Firm size has been described as a proxy for market power, though it may also be a source of inertia. Firm size has been associated with market power in both domestic and international contexts (Gaba, Pan, and Ungson 2002). Large firms may identify more time-dependent opportunities. For example, they are better able to make preemptive moves that limit later entrants from access to suppliers, markets, customers, and other scarce resources and are more likely to have stronger bargaining power to gain concessions from the host-country government. Finally, they tend to have more financial resources, which
provide a buffer against downside risks. In contrast, bureaucratic tendencies arising from greater structural complexity and formalization can lead to increased rigidity. This negatively affects a retailer’s ability to react quickly to changing environments or to grasp new opportunities fully. As such, larger firms may be less able to exploit time-dependent advantages (Lieberman and Montgomery 1988). Because of these opposing forces, it is difficult to predict the impact of firm size.

**Host-Market Attractiveness**

In assessing the impact of the aforementioned knowledge factors, it is also necessary to control for the host market’s intrinsic attractiveness. We consider the impact of the distance between a potential host country and a retailer’s home market, the extent to which a transition economy is opening up for new entrants, and the strength of the local players in the host market.

**Home-market distance.** Distance between the host market and the retailer’s home market decreases the attractiveness of a new market, making it more likely that the retailer will adopt a cautious attitude. Indeed, distance determines how difficult it is to realize a knowledge transfer from home market to a potential host market. In line with the work of Mitra and Golder (2002), we consider the impact of cultural, geographic, and economic distance. Note that these distances differ between different host markets but not among retailers originating from the same home market. In contrast, the aforementioned near-market knowledge constructs can also differ among retailers from the same home country.1

**Extent of liberalization.** Although CEE economies share a common legacy of central planning, their economic liberalization did not materialize to the same extent or at the same pace (De Melo et al. 2001). The intensity of the political and economic reforms is likely to affect a transition economy’s perceived attractiveness to foreign investors.

**Strength locally based rivals.** Apart from foreign players that are present in the host market, the strength of the local retailers may also be an inhibiting factor (Galbraith and Stiles 1983).

**Methodology**

**Speed-of-Entry Decision**

We adopt a hazard specification for the timing dimension, in which we define the entry rate at year t for retailer i (i = 1, ..., I) in country j (j = 1, ..., J) as λij(t):

\[ \lambda_{ij}(t) = \lambda_{0j}(t) \exp[\beta X_{ij}(t)], \]

where \( X_{ij}(t) \) represents a vector of time-varying covariates; \( \lambda_{0j}(t) \) is the baseline hazard in j, which represents the entry rate assuming all covariates equal to zero; and \( \beta \) represents the vector of parameters. Estimation is based on the partial likelihood. For country j, this function becomes

\[ L_j = \prod_{i=1}^{I} \left[ \frac{\exp[\beta X_{ij}(t_{ij})]}{\sum_{i=1}^{I} Y_{ij} \exp[\beta X_{ij}(t_{ij})]} \right]^{c_{ij}}, \]

where \( c_{ij} \) equals one (zero) for completed (censored) observations. Its use excludes from the numerator retailers that did not experience an entry event into country j by the end of the observation period. For firms that experienced an event at a specific time (\( t_{ij} \)), we consider the likelihood that the event happened to firm i rather than to one of the other firms still “at risk” (i.e., those that can still enter). To determine the relevant risk set, we create a set of indicator variables \( Y_{t_{ij}} \), where \( Y_{t_{ij}} = 1 \) if \( t_{ij} \geq t_{ij} \) and \( Y_{t_{ij}} = 0 \) if \( t_{ij} < t_{ij} \). In doing so, we concentrate on the order in which the various events take place (Allison 1984). Note that even though censored observations are excluded from the numerator in Equation 2, they can appear in the risk set composition of the denominator. A key advantage of the approach is that it does not require a distributional specification for the baseline hazard, because it no longer appears in Equation 2.

When considering the entry process across J markets, we combine the various partial likelihood expressions; that is,

\[ L = \prod_{j=1}^{J} \prod_{i=1}^{I} \left[ \frac{\exp[\beta X_{ij}(t_{ij})]}{\sum_{i=1}^{I} Y_{ij} \exp[\beta X_{ij}(t_{ij})]} \right]^{c_{ij}}. \]

We assume a common set of \( \beta \)s across the various countries. Still, the risk set (and, thus, the relevant order of occurrence of the various events) is defined on a country-by-country basis. This procedure is known as a stratified proportional Cox approach, which no longer assumes that all observations (across the various countries) are independent but only that the observations are conditionally independent within a given country or stratum.

**Size-of-Entry Decision**

When entry occurred for retailer i in country j in the observation span, we record the number of stores \( z_{ij} \) opened in the initial year of entry. To account for the discrete nature of these data, we adopt a Poisson regression model. Specifically, we assume that each \( z_{ij} \) is drawn from a Poisson distribution with parameter \( \gamma_{ij} \), implying that

\[ P(Z_{ij} = z_{ij}) = \left( \frac{e^{-\gamma_{ij}} \gamma_{ij}^z}{z_{ij}!} \right). \]

Covariates can be included by specifying \( \gamma_{ij} \) as

\[ \gamma_{ij} = \exp(cY_{ij}). \]
where \( Y_{ij} \) is a vector of covariates and \( c \) is the vector of parameters to be estimated. The size decision is implemented only if entry actually occurred, implying that the distribution of responses is truncated above zero (Bucklin, Gupta, and Siddarth 1998):

\[
P(Z_{ij} = z_{ij} | Z_{ij} > 0) = \frac{P(Z_{ij} = z_{ij})}{1 - P(Z_{ij} = 0)} = \frac{e^{-\gamma z_{ij}^2}}{z_{ij}^2 (1 - e^{-\gamma z_{ij}^2})}.
\]

To account for correlations within host countries, we use a generalized estimating equations approach (Liang and Zeger 1986), which has been shown to be robust to covariance structure misspecifications.

**Relationship Between Entry-Timing and -Size Decisions**

We adopt a recursive approach and assume that the size decision is dependent on the timing decision. Therefore, we add the year of entry as an additional variable in the Poisson model. As such, we model the dependence between the timing and the size decision by including an observable covariate (time of entry) in the size equation, which is comparable to the linkage in Dekimpe, Parker, and Sarvary’s (2000) coupled-hazard approach. This ensures that the likelihood function becomes separable, allowing a separate estimation of both processes. This sequential approach is based on the argument that entry decisions can be considered lumpy investments, which are discrete and occasional events. The level of such an investment decision tends to be made after the decision to invest has been made, as Bar-Ilan and Strange (1999) argue.

In terms of the expected sign of this relationship, we can posit two arguments. First, early entrants may prefer large-scale entry because this may expand the size of the market, send signals of commitment, and deter duplication (Ghemawat 1991). This suggests that there is a negative relationship between size and timing of entry. However, a positive relationship could also be posited. If a firm enters early, the risk of not recovering overhead costs may be substantial, and greater commitment implies greater risk. These risks can be substantial if the host market is in an early stage of development, suggesting a more limited scale when entering early, all else being equal.

**Data**

We traced 75 European grocery retailers’ behavior with respect to their entry into 11 CEE markets (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovakia, and Slovenia) from 1989 to 2002, resulting in 825 retailer–market combinations. We included retailers in the sample if they were listed among the 75 largest grocery retailers in Europe, based on total consolidated food sales in 1991. In total, we included retailers from 14 countries. Approximately 60% of the retailers were primarily operating supermarkets, and hypermarkets and discount operations were the dominant format in 24% and 16% of all cases.

We selected Western European retailers because they are the front-runners in the globalization of grocery retailing (Organisation for Economic Co-operation and Development 2000). We considered all entries through greenfield expansion and acquisition, and we also included joint ventures. We used a historic perspective (Golder and Tellis 1993) to gather information about entries that were abandoned by the end of the observation period. We obtained the information by sequentially checking all M+M Planet Retail publications and various other trade publications.

The selection of CEE as the target market offers various advantages. First, the fall of the Berlin Wall is a natural starting point for the timing decision. Because no modern retailing was present in the target market, we can test the impact of the different drivers in a tabula rasa situation. Second, because the various markets opened to all retailers at the same time, we expect that few confounding effects are present. Finally, transition economies provide an ideal setting to assess the impact of learning derived from competitors because the countries are characterized by a substantial amount of environmental uncertainty (Luo and Peng 1999). We obtained data on market entries, competitive actions, and firm characteristics from M+M Planet Retail. Data for the distance measures come from different sources, including the World Bank and Hofstede (2001).

**Dependent Variable: Timing of Entry**

For every retailer–country combination, we recorded whether the market was entered. If entry took place, we measured timing as the number of years elapsed between the opening of the market (1990) and the entry date. We can censor observations for two reasons. First, it could be that no entry occurred by the end of the observation period (December 2002). If this is the case, we can capture timing as the number of years (13) elapsed between the opening of the market and the end date. Second, in a few instances, a retail firm was taken over. In this case, we used the date of acquisition as the censoring date. A total of 42 firms entered one or more Eastern European markets. Of those, 14 entered only one host market, 20 entered between two and five countries, and 8 entered more than five markets. The total number of recorded entries amounts to 125, which represents a hit rate of 15.1%. The median time until entry for censored observations is six years. Moreover, we observed variability across host markets. The most popular markets were Poland (27 entries) and the Czech Republic (18), and the least popular destinations were Bulgaria (4) and Lithuania (5). Approximately 50% of the 46 supermarket players in the sample entered at least one CEE country.

Norway (4), Portugal (2), Spain (3), Switzerland (4), Sweden (3), the Netherlands (4), and the United Kingdom (13).

Because the Berlin Wall fell in November 1989, we took 1990 as the first year in which entry could actually take place.

Retailers that were taken over are censored before the end of the observation window. We deleted them from the set of “retailers still at risk” (the denominator of Equation 2) as soon as the timing of a particular entry exceeded the time of acquisition.
as did more than 60% of the discount and hypermarket retailers in our sample.

**Dependent Variable: Size of Entry**

We define the size of entry as the number of outlets opened in the first year. We adopt this measure because multiple outlets are needed in local-service industries to build a close-contact relationship with prospective consumers (Fuentelsaz, Gomez, and Polo 2002). Initial entry size varied considerably (range = 1–63) with a mean value of 4.4, and 38% of all entries happened through a single store. In 32% of the cases, 2–5 outlets were opened, and another 15% entered with 6–10 stores. The remaining 15% penetrated the market with more than 10 outlets.

**Explanatory Variables**

All explanatory variables are time varying, and we measured them at an annual level of temporal aggregation. Following the work of Steenkamp, Ter Hofstede, and Wedel (1999), we mean-centered all explanatory variables within countries. This ensures that differences in the mean levels between countries do not affect our hypothesis testing.

*Interretailer information: competitive presence.* For the timing decision, we measured competitive presence as the fraction of a certain subset of competitors that is present at a given point in time. We operationalized the presence of home-country players as the ratio of the number of prior entries (i.e., at the end of the year before entry) of home-market players to the number of major home players. We define major players as firms that have a market share that exceeds 1% in their home country. We express this presence in relative rather than absolute terms to correct for differences in the number of rivals present in the home market. For example, the German retailer Rewe entered the Czech market in 1996. At the time of entry in this new host market, Rewe encountered its German rivals Norma, Tengelmann, and Edeka, which entered in 1991, 1992, and 1993, respectively. In its German home market, Rewe encountered 14 major rivals. Consequently, the proportion of home-based rivals present in the Czech market was 0% until 1991, 7% in 1992 (1/14), 14% in 1993 (2/14), and 21% (3/14) from 1994 to 1996. We define the proportion of foreign players in the host market at time t in a similar way. In terms of Rewe’s move into the Czech Republic, six foreign players were present before 1996. In the 13 home countries represented in our sample (other than Germany), 80 retailers had a home share that exceeded 1%. As such, the proportion of foreign players that Rewe encountered in the Czech Republic was 7.5% (6/80). To test for the incremental effect of pioneering firms, we added four step dummies to the hazard model, which take the value of one when the first home, foreign, same-format, and different-format rival entered, respectively.

With respect to the size decision, we operationalized competitive presence in terms of the average number of stores already operated by (a subset of) prior entrants. This reflects the extent of their commitment, which may be more informative than the mere presence of competitors when a firm is deciding on its own commitment level. In 1996, Rewe was confronted with 41 outlets operated by its three German rivals in the Czech Republic (13.6 outlets per home player) and 220 stores run by six foreign competitors (36.6 outlets per foreign player).

Likewise, we operationalized the presence of same-format players as the proportion of same-format retailers that entered a particular host market. We distinguish among three key formats: conventional supermarkets (characterized by a hi-lo pricing strategy, broad assortment, and considerable service), discounters (everyday low prices, narrow assortments, and limited service), and hypermarkets (a pricing strategy in between the two others, a wide assortment, and intermediate service). We assigned retailers to these categories on the basis of the percentage of the parent firm’s worldwide sales realized through that format (for a similar practice, see Gielens and Dekimpe 2001). We define the presence of different-format retailers in a similar way.

Finally, we added four dummy variables to the size equation to indicate whether at least one retailer of a particular type was already present in the year preceding that retailer’s entry. Table 1 presents an overview of the competitive presence at three points in time.

**Intraretailer Information: Firm Resources**

Worldwide experience in period t is expressed as the cumulative number of international markets a firm entered by the end of the previous year (see Tan and Vertinsky 1996). We define its regional equivalent as the number of outlets opened throughout CEE by a given retail firm, again by the end of the previous year (see Li 1994). We use the number of outlets because this better captures the advantages of having a logistic network in the region.

Following the work of Mitra and Golder (2002), our measure for near-market cultural knowledge takes into account that this knowledge will increase when a retailer is active in markets that are culturally more similar to the potential host market than to its home market. Moreover, the duration of experience in each of these markets also increases the extent of cultural knowledge, but with diminishing returns. Formally, we write this measure as

\[
\sum_{i=1}^{n_i} \log(1 + \text{years}_{it})_{(\text{similar}_i - \text{potential})}.
\]

where \( n_i \) captures the number of markets in which a retailer operates at time t that are culturally more similar to the potential host market than to the retailer’s home market; \( \text{years}_{it} \) expresses the number of years in market i at time t; and \((\text{similar}_i - \text{potential})\) reflects Kogut and Singh’s (1988) composite measure of cultural distance, which they derive from Hofstede’s (2001) data on four cultural dimensions (individualism, uncertainty avoidance, power distance, and masculinity).

In a similar vein, we define four measures of near-market economic knowledge that capture the economic similarity between each potential host market and the other (economically more similar) CEE countries in which the firm already operates: (1) economic prosperity, (2) economic size, (3) economic accessibility, and (4) economic infrastructure. These dimensions are reflected in gross national product per capita, gross national product, popula-
### TABLE 1

**Competitive Action Descriptives**

<table>
<thead>
<tr>
<th></th>
<th>Home Players</th>
<th>Foreign Players</th>
<th>Same Format</th>
<th>Different Format</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bulgaria</strong></td>
<td>0</td>
<td>0</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td><strong>Czech Republic</strong></td>
<td>4</td>
<td>23</td>
<td>41</td>
<td>4</td>
</tr>
<tr>
<td><strong>Estonia</strong></td>
<td>0</td>
<td>6</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td><strong>Hungary</strong></td>
<td>5</td>
<td>17</td>
<td>26</td>
<td>6</td>
</tr>
<tr>
<td><strong>Latvia</strong></td>
<td>0</td>
<td>0</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td><strong>Lithuania</strong></td>
<td>0</td>
<td>0</td>
<td>13</td>
<td>0</td>
</tr>
<tr>
<td><strong>Poland</strong></td>
<td>4</td>
<td>39</td>
<td>60</td>
<td>3</td>
</tr>
<tr>
<td><strong>Romania</strong></td>
<td>0</td>
<td>3</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td><strong>Russia</strong></td>
<td>0</td>
<td>0</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td><strong>Slovakia</strong></td>
<td>0</td>
<td>6</td>
<td>23</td>
<td>0</td>
</tr>
<tr>
<td><strong>Slovenia</strong></td>
<td>0</td>
<td>5</td>
<td>16</td>
<td>0</td>
</tr>
</tbody>
</table>

### B: Average Number of Outlets per Player

<table>
<thead>
<tr>
<th></th>
<th>Home Players</th>
<th>Foreign Players</th>
<th>Same Format</th>
<th>Different Format</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bulgaria</strong></td>
<td>.0</td>
<td>.0</td>
<td>1.2</td>
<td>.0</td>
</tr>
<tr>
<td><strong>Czech Republic</strong></td>
<td>1.3</td>
<td>12.2</td>
<td>21.9</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Estonia</strong></td>
<td>.0</td>
<td>.1</td>
<td>2.9</td>
<td>.0</td>
</tr>
<tr>
<td><strong>Hungary</strong></td>
<td>1.3</td>
<td>26.7</td>
<td>35.3</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>Latvia</strong></td>
<td>.0</td>
<td>.0</td>
<td>1.0</td>
<td>.0</td>
</tr>
<tr>
<td><strong>Lithuania</strong></td>
<td>.0</td>
<td>.0</td>
<td>1.5</td>
<td>.0</td>
</tr>
<tr>
<td><strong>Poland</strong></td>
<td>.4</td>
<td>11.6</td>
<td>49.5</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Romania</strong></td>
<td>.0</td>
<td>1.2</td>
<td>3.5</td>
<td>.0</td>
</tr>
<tr>
<td><strong>Russia</strong></td>
<td>.0</td>
<td>.0</td>
<td>.3</td>
<td>.0</td>
</tr>
<tr>
<td><strong>Slovakia</strong></td>
<td>1.2</td>
<td>6.6</td>
<td>17.2</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Slovenia</strong></td>
<td>1.3</td>
<td>1.4</td>
<td>2.6</td>
<td>1.0</td>
</tr>
</tbody>
</table>

---

Control Variables

The annual private-label share in the retailer’s home market measures the extent to which the retailer depends on private labels in its home market (Gielens and Dekimpe 2001). To capture size effects, we recorded consolidated deflated sales. We measured cultural distance between the retailer’s home market and a host market in terms of Kogut and Singh’s (1998) composite index. We captured geographic distance in two ways: with a dummy variable that indicates whether the retailer has its headquarters in a country that neighbors the potential host market and through the distance in miles between the host-market capital and the capital of the retailer’s home market (Gielens and Dekimpe 2001). We created four economic distance measures (economic prosperity distance, economic size distance, economic infrastructure distance, and economic accessibility distance) using the four previously discussed economic attractiveness indicators. Each measure is the absolute value of the difference between the corresponding economic attractiveness variable for the home market and the potential host market. To capture the extent of liberalization, we used a measure developed by the World Bank that reflects the extent of (1) liberalization of domestic prices and the abolition of state trading monopolies, (2) liberalization of the foreign trade regime, and (3) privatization of small- and large-scale enterprises (De Melo et al. 2001). The index ranges from 0 (“unreformed”) to 10 (“entirely reformed”). Finally, we controlled for the strength of local retailers by considering the number of local players that had a market share in excess of 1% in any given year.

Results

Table 2 reports the unstandardized parameter estimates and their associated t-values. Given the directional nature of most of our hypotheses, we use one-sided tests, except for the impact of firm size and, in the size equation, the impact of the timing covariate.

Interretailer Information: Competitive Actions

As we indicated previously, two opposing forces, imitation and deterrence, may be at work. A priori, it is difficult to predict which of these two forces will prevail at what range of competitive activity. As such, we specified a quadratic relationship to allow for the flexibility to incorporate (inverted) U, as well as monotonically increasing/decreasing relationships between competitive activity and the speed and size of entry. We found this flexibility to be appropriate...
because seven of eight quadratic terms were negative and significant.

**Speed of entry.** We observed three of these inverted U-shaped patterns for speed of entry. We found a curvilinear relationship between the proportion of home players present in the host market and the speed of entry, as illustrated by the positive, significant linear ($\beta_1 = .938$, $p < .01$) and the negative, significant quadratic ($\beta_2 = -.418$, $p < .05$) parameter estimates. Likewise, we found an inverted U-shaped effect for the impact of foreign rivals ($\beta_4 = 1.003$, $p < .01$; $\beta_5 = -1.075$, $p < .05$). Entries made by same-format players into the host market were also curvilinearly related to the speed-of-entry decision ($\beta_7 = .209$, $p < .01$; $\beta_8 = -.433$, $p < .05$). With respect to the proportion of different-format players, we found a positive, significant linear term; the quadratic term did not reach statistical significance ($\beta_{10} = .209$, $p < .01$; $\beta_{11} = 1.233$, $p > .05$).

To understand these effects better, we illustrate in Figure 2 how the presence of rival retailers affected the speed of entry into the Czech Republic in 1997. Although the gen-

<table>
<thead>
<tr>
<th></th>
<th>Speed of Entry</th>
<th>Size of Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$\beta$</td>
<td>[t-Value]</td>
</tr>
<tr>
<td><strong>Interretailer Information</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Home-based players ($\beta_1$, $\gamma_1$)</td>
<td>.938</td>
<td>3.83***</td>
</tr>
<tr>
<td>Home-based players$^2$ ($\beta_2$, $\gamma_2$)</td>
<td>-.418</td>
<td>2.07**</td>
</tr>
<tr>
<td>First home-based entrant ($\beta_3$, $\gamma_3$)</td>
<td>.171</td>
<td>1.19</td>
</tr>
<tr>
<td>• Foreign players ($\beta_4$, $\gamma_4$)</td>
<td>1.003</td>
<td>3.83***</td>
</tr>
<tr>
<td>Foreign players$^2$ ($\beta_5$, $\gamma_5$)</td>
<td>-.075</td>
<td>1.99**</td>
</tr>
<tr>
<td>First foreign entrant ($\beta_6$, $\gamma_6$)</td>
<td>-.766</td>
<td>.98</td>
</tr>
<tr>
<td>• Same-format players ($\beta_7$, $\gamma_7$)</td>
<td>.209</td>
<td>4.94***</td>
</tr>
<tr>
<td>Same-format players$^2$ ($\beta_8$, $\gamma_8$)</td>
<td>-.433</td>
<td>2.47**</td>
</tr>
<tr>
<td>First same-format entrant ($\beta_9$, $\gamma_9$)</td>
<td>.885</td>
<td>1.78**</td>
</tr>
<tr>
<td>• Different-format players ($\beta_{10}$, $\gamma_{10}$)</td>
<td>.209</td>
<td>2.75***</td>
</tr>
<tr>
<td>Different-format players$^2$ ($\beta_{11}$, $\gamma_{11}$)</td>
<td>1.233</td>
<td>.75</td>
</tr>
<tr>
<td>First different-format entrant ($\beta_{12}$, $\gamma_{12}$)</td>
<td>.126</td>
<td>.13</td>
</tr>
<tr>
<td><strong>Intraretailer Information</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Relevance of international experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Near-market cultural knowledge ($\beta_{13}$, $\gamma_{13}$)</td>
<td>.037</td>
<td>1.85**</td>
</tr>
<tr>
<td>Near-market economic knowledge</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Size ($\beta_{14}$, $\gamma_{14}$)</td>
<td>.217</td>
<td>1.91**</td>
</tr>
<tr>
<td>- Infrastructure ($\beta_{15}$, $\gamma_{15}$)</td>
<td>.004</td>
<td>1.56</td>
</tr>
<tr>
<td>- Accessibility ($\beta_{16}$, $\gamma_{16}$)</td>
<td>.772</td>
<td>1.59</td>
</tr>
<tr>
<td>- Prosperity ($\beta_{17}$, $\gamma_{17}$)</td>
<td>.000</td>
<td>.59</td>
</tr>
<tr>
<td>• Extent of international experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional experience ($\beta_{18}$, $\gamma_{18}$)</td>
<td>.004</td>
<td>3.80***</td>
</tr>
<tr>
<td>Worldwide experience ($\beta_{19}$, $\gamma_{19}$)</td>
<td>.076</td>
<td>2.74***</td>
</tr>
<tr>
<td><strong>Control Variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Firm characteristics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private-label share ($\beta_{20}$, $\gamma_{20}$)</td>
<td>-.009</td>
<td>2.13**</td>
</tr>
<tr>
<td>Firm size ($\beta_{21}$, $\gamma_{21}$)</td>
<td>.000</td>
<td>.37</td>
</tr>
<tr>
<td>• Host-market attractiveness</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cultural distance ($\beta_{22}$, $\gamma_{22}$)</td>
<td>-.072</td>
<td>1.30</td>
</tr>
<tr>
<td>Geographic distance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Distance between capitals ($\beta_{23}$, $\gamma_{23}$)</td>
<td>-.001</td>
<td>3.34***</td>
</tr>
<tr>
<td>- Neighbor ($\beta_{24}$, $\gamma_{24}$)</td>
<td>.503</td>
<td>1.53</td>
</tr>
<tr>
<td>Economic distance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Size ($\beta_{25}$, $\gamma_{25}$)</td>
<td>-.001</td>
<td>1.89**</td>
</tr>
<tr>
<td>- Infrastructure ($\beta_{26}$, $\gamma_{26}$)</td>
<td>-.017</td>
<td>1.21</td>
</tr>
<tr>
<td>- Accessibility ($\beta_{27}$, $\gamma_{27}$)</td>
<td>-.004</td>
<td>1.78**</td>
</tr>
<tr>
<td>- Prosperity ($\beta_{28}$, $\gamma_{28}$)</td>
<td>-.001</td>
<td>4.17***</td>
</tr>
<tr>
<td>Liberalization index ($\beta_{29}$, $\gamma_{29}$)</td>
<td>.010</td>
<td>.11</td>
</tr>
<tr>
<td>Local players ($\beta_{30}$, $\gamma_{30}$)</td>
<td>-.024</td>
<td>.17</td>
</tr>
<tr>
<td><strong>Timing ($\gamma_3$)</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*p < .05 (two-sided).

**p < .05 (one-sided).

***p < .01 (one-sided).
The Entry Strategy of Retail Firms into Transition Economies / 205

FIGURE 2
The Impact of Rivals’ Presence on Entry Timing

A: Home Versus Foreign Players

Rate of Entry

% Players Present

Foreign players

Home players

A: Same- Versus Different-Format Players

Rate of Entry

% Players Present

Same-format players

Different-format players

Notes: Panels A and B depict how the presence of rival retailers affected the speed of entry into the Czech Republic in 1997. The horizontal axis represents the proportion of rivals present, and the rate of entry is given on the vertical axis. We present the results relative to the average within a country.

eral inverted U-shaped pattern would hold for other host markets and/or periods, differences in the location of the point at which deterrence effects begin to dominate the imitation/legitimization effect could be observed in other settings. Indeed, all covariates were mean-centered, and these means can change over time and countries. The horizontal axis represents the proportion of rival players that are present, and the vertical axis represents the rate of entry (speed decision). Because the independent variables were mean centered, we present our results relative to the average within a country. Figure 2, Panel A, focuses on the presence of home versus foreign rivals, and Figure 2, Panel B, considers same- versus different-format competition.

In 1997, German retailers that wanted to enter the Czech Republic observed that 56% of their key domestic rivals were already active in that market. At that point, the mean level of domestic rivals present in the Czech Republic amounted to 23%. As a consequence, the entry rate for Ger-
man retailers was approximately 30% (i.e., \( \exp(0.938 \times \{0.56 - 0.23\} - 0.418 \{0.56 - 0.23\}^2) \)) higher than that for retailers with an average proportion of domestic rivals in that market. At that point, French retailers encountered only 10% of their domestic rivals in the Czech market. Their entry rate was 12% lower than that for retailers that encountered an average fraction of domestic rivals.

However, note that even though the quadratic term is negative and significant for actions by home-based rivals (i.e., \(-0.418\)), we still observe a monotonically increasing pattern over the relevant data range (0–1). Thus, the learning or imitation effect from an additional entry by a home rival dominates its potential deterring effects. Still, the latter causes the net effect to level off as ever-higher fractions of home rivals are present. This deterrence effect becomes much more prevalent when the impact of entries by foreign rivals is considered. With respect to the speed-of-entry decision, we even find that after the proportion exceeds 59%, the imitation effect from an additional entry into the Czech Republic becomes outweighed by its deterrence effect.

For effect of same-format rivals (Figure 2, Panel B), the corresponding curve is again curvilinear. Specifically, when approximately 35% of the same-format rivals are present, the deterrence effect begins to outweigh the legitimation effect. In contrast, the impact of additional different-format players is positive over the entire range. Because different-format players compete less directly for the same consumers, their presence is considered a good indicator of the opportunities in the host market, while being less threatening. The country-of-origin effect seems to be more pronounced than the format effect because the curves that depict the latter tend to be flatter, resulting in a smaller effect size over the relevant data range. With respect to the incremental impact of the first entrant, we find evidence of such an effect for the same-format pioneer (\( \beta_9 = 0.885, p < 0.05 \) but not for the first home-based, foreign, or different-format player (\( \beta_3 = 0.171, p > 0.05; \beta_6 = -0.766, p > 0.05; \beta_{12} = 0.126, p > 0.05 \)).

**Size of entry.** With respect to size, we found four curvilinear effects. There is an inverted U-shaped effect for both home-based rivals (\( \gamma_1 = 0.16, p < 0.01; \gamma_2 = -0.0001, p < 0.05 \)) and foreign players (\( \gamma_1 = 0.113, p < 0.01; \gamma_3 = -0.18, p < 0.05 \)) that are present in the host market. Likewise, for both format groups, we found an inverted U shape (same-format players: \( \gamma_1 = 0.126, p < 0.01; \gamma_8 = -0.006, p < 0.01 \); different-format players: \( \gamma_{10} = 0.073, p < 0.05; \gamma_{11} = -0.004, p < 0.01 \)). Notably, although we found that same-format presence quickly started to deter entry, when the entry decision was made, retailers initially derived a net positive impact from additional same-format stores. With respect to the timing decision, we again observed an incremental effect of the first same-format rival on the size of entry (\( \gamma_9 = 0.778, p < 0.01 \)). All else being equal (i.e., setting all other covariates at the host country’s mean in a given year), we can show that the first retailer of a particular home country is expected to enter with three stores when home-market players operate, on average, five stores in that host country (Cameron and Trivedi 1998). This number is below Kumar’s (1997) minimum efficient scale. However, if the retailer encounters home rivals that already operate 25 stores, this expected level of initial commitment increases to six stores, implying entrance at minimum efficient scale.

**Intraretailer Information**

**Speed of entry.** As we expected, a higher level of near-market cultural knowledge increases the speed of entry in a new potential host market (\( \beta_{13} = 0.037, p < 0.05 \)). Likewise, more near-market size knowledge (\( \beta_{14} = 0.217, p < 0.05 \)) positively affects the speed of entry. Furthermore, more international experience, both regional and worldwide, increases the speed of entry (\( \beta_{18} = 0.004, p < 0.01; \beta_{19} = 0.076, p < 0.01 \)).

**Size of entry.** In line with our hypotheses, we find that near-market cultural knowledge increases the number of stores opened (\( \gamma_{13} = 0.067, p < 0.01 \)). Moreover, near-market economic knowledge positively affects the size decision; we found a positive, significant effect for two of the underlying similarity dimensions: accessibility (\( \gamma_{16} = 0.774, p < 0.01 \)) and prosperity (\( \gamma_{17} = 0.0002, p < 0.01 \)). Regional experience has a positive effect on the size decision (\( \gamma_{18} = 0.006, p < 0.01 \)). However, contrary to prior expectations, more global diversity results in less stores being opened at the time of entry (\( \gamma_{19} = -0.083, p < 0.05 \)). If a retailer operates in many markets, its resources become more thinly spread, thus hampering a large-scale entry into each market. In contrast, regional experience ensures the necessary logistic support to open more stores in the region.

**Control Variables**

**Speed of entry.** As we predicted, the share of private labels in the assortment negatively influences the speed decision (\( \beta_{20} = -0.009, p < 0.05 \)). The impact of firm size was not significant. We found no support for the expected negative effect of cultural distance on speed of entry (\( \beta_{22} = -0.072, p > 0.05 \)). However, the speed of entry decreases significantly with the distance between capitals (\( \beta_{23} = -0.01, p < 0.01 \)), but we found no additional neighboring effect (\( \beta_{24} = 0.503, p > 0.05 \)). We found that the speed of entry is lower in markets characterized by economic conditions that are different from the home market in terms of size, accessibility, and prosperity (\( \beta_{25} = -0.001, p < 0.05; \beta_{26} = -0.004, p < 0.05; \beta_{28} = -0.001, p < 0.01 \)). In contrast, we found no significant effect for infrastructure distance, the extent of economic liberalization, or the strength of the local players.

**Size of entry.** As for the timing decision, private-label share negatively influences the size decision (\( \gamma_{20} = -0.014, p < 0.01 \)), whereas again, the impact of firm size does not reach statistical significance (\( \gamma_{22} = 0.000, p > 0.05 \)). In contrast to the speed of entry, we found that fewer outlets are opened at the time of entry as the cultural distance (\( \gamma_{22} = -0.418, p < 0.05 \)) and the distance between the respective capitals (\( \gamma_{23} = -0.00002, p < 0.05 \)) increase. However, we observed no neighboring effect with respect to the size decision (\( \gamma_{24} = 0.239, p > 0.05 \)). Moreover, the size decision is negatively influenced by two economic distance measures between host and home market (\( \gamma_{25} = -0.003, p < 0.01; \gamma_{26} = -0.0001, p < 0.01 \)). Different from the speed of entry, the size decision is positively influenced by the extent of liberalization in the potential host country (\( \gamma_{28} = 0.442, p < 0.05 \)). Locally based players did not play a major role in the size-
of-entry decision ($\gamma_{30} = .045, p > .05$). Finally, as discussed in the “Methodology” section, we included the timing variable in the size equation. We found a negative, significant effect ($\gamma_{31} = -.244, p < .05$ [two-sided test]).

**Validation**

To assess the robustness of our results, we explored whether our results pertaining to the nature of interorganizational learning (1) hold for both more and less liberalized transition economies, (2) are sensitive to the operationalization adopted for the competitive action measures, (3) are sensitive to our treatment of firms taken over by competitors, and (4) are sensitive to whether the first entrant of a certain type is excluded from the analyses.6

**Testing for Differences Between More and Less Liberalized Regions**

For the timing decision, we implemented a split-sample analysis, in which we checked whether similar substantive implications held for both more and less liberalized transition economies. Because of the more limited sample size for the count model (n = 125), we did not implement any such split-sample analysis for the size decision. We identified two groups, in line with a dichotomy proposed by the World Bank (De Melo et al. 2001): We labeled Poland, Slovenia, Hungary, the Czech Republic, and the Slovak Republic as “advanced reformers” and Bulgaria, Estonia, Latvia, Lithuania, Romania, and Russia as “intermediate reformers.” Our conclusions regarding the nature of the interfirm knowledge transfer, reflected in the different curvilinear patterns and the presence/absence of an incremental effect for pioneering entries, hold in both subsamples.

**Sensitivity to the Operationalization of Competitive Actions**

Firms may learn not only from the mere presence of their rivals but also from their rivals’ performance in a potential host market. Although the number of players or the number of stores they operate is relatively easy to observe, accurate and (especially) timely information about each competitor’s performance in a host market is more difficult to obtain. Still, we tried to incorporate performance information in three different ways.

First, we checked whether an additional information signal emanates from competitors’ exits. We incorporated four additional exploratory variables into our models—the proportion of exits by home and foreign retailers and by same-format and different-format players—none of which had a significant impact on the timing decision. Moreover, our substantive findings pertaining to the nature of interfirm knowledge generated through competitive presence remained unaffected, the only difference being that the impact of first same-format entrants ($\beta_0$) was significant at $p = .052$ (rather than at $p < .05$). For the size decision, we obtained similar curvilinear patterns for the impact of competitive presence. However, the exit variables consistently had a significant, negative impact, as we expected ($\gamma_{home exits} = -.025, p < .01; \gamma_{foreign exits} = -.073, p < .05; \gamma_{same-format exits} = -.203, p < .01; \gamma_{different-format exits} = -.065, p < .05$). In combination, these results confirm that firms consider the presence of other players when deciding on entry timing and size and become even more cautious to commit substantial resources when some of the players in the reference group exit.

Second, we acknowledge that incumbent expansion/divestment may also offer a useful performance signal. Therefore, we took only (stores operated by) those retailers into account that did not reduce their number of outlets the previous year. Again, this did not affect our substantive insights into the presence of legitimization/deterrence effects.

Third, Kumar (1997) argues that a retailer can operate successfully in a new host market only if its operations exceed a certain minimum efficient scale. Kumar estimates that this is obtained if a retailer is present with at least six to eight outlets. Following this suggestion, we used a minimum of six outlets as a cutoff value and recoded all data in such a way that as long as retailers had fewer than six outlets, they were not yet accounted for when computing the extent of competitive presence. Our substantive insights into the nature of interfirm competition were not affected, the only difference being that $\gamma_2$ had a p value of .054.

**Sensitivity to the Treatment of Takeovers**

In some instances, a firm was taken over, in which case we used the acquisition date as the censoring date. For such firms, we could no longer enter the numerator of Equation 2 from that period onward. For example, as soon as the French retailer Promodès was taken over by Carrefour in 1999, it was no longer “actively present” in the sample. Moreover, the acquiring retailer can change dramatically in private-label share and size. We tested whether such changes in sample composition affected our results. We considered two alternative treatments of takeover operations. First, we removed all firms involved in an acquisition operation (either as the firm that was taken over or as the firm taking over another retailer). Second, we considered the merged retailers as if they were a single entity from the beginning of the observation window; that is, we removed only the firm that was taken over from the sample, and we immediately adjusted the size of the firm taking over the other retailer. Again, our substantive insights were robust.7

**Sensitivity to the Treatment of First Entrants**

Because pioneers may perceive different opportunities and/or risks, somewhat different processes may be at work. We allowed for a differential legitimization/deterrence effect of the first entrants through the inclusion of four indicator

---

6Full details on these validation exercises are available on request.

7The only difference was that three parameters were significant at $p < .06$ (rather than at .05).
variables. As a final validation exercise, we estimated the size and timing model on a reduced sample, in which we excluded each country’s first entrant and defined the entry timing relative to that pioneer rather than to the fall of the Berlin Wall. Again, our substantive insights into the nature of interorganizational learning were robust.

Discussion

A key issue that managers face when formulating an entry strategy is to define the competitive arena—that is, to identify the competitors and assess the likely intensity of their presence (Day 1997). In this article, we derived an industry model that describes Europe’s top 75 retail chains’ choices of entry into the emerging markets of CEE in terms of timing and size. We derived various theory-based expectations about the antecedents of these decisions, which are largely supported by our empirical findings. This suggests the presence of a certain amount of rationality in these retailers’ decision making (Steenkamp et al. 2005), and it shows that it is possible to predict the type of competitors a firm is likely to face at the time of entry (Fuentelsaz, Gomez, and Polo 2002).

Learning from Industry Wisdom

We find substantial evidence for the existence of interorganizational learning. Faced with the considerable uncertainty surrounding entry decisions in markets that only recently opened their borders, managers consider prevailing practices in the industry to guide their own decisions. Moves made by the home followers are followed especially closely. Rivals’ presence reduces perceived uncertainty because firms with similar backgrounds have already made the move. For example, France’s Auchan cites the presence of its French rivals Leclerc and Casino as a key driver to also enter Poland (Polish News Bulletin 2000). It also explains the emergence of national clusters in the early stages of the internationalization into CEE.

However, foreign players are not ignored. Notably, the deterrent effect of their presence is found to be much more prominent. There is anecdotal support for this in Carrefour’s announcement to postpone its Hungarian expansion in favor of Romania and China to avoid competition with chains such as the United Kingdom’s Tesco or Germany’s Metro (Grocer 2000).

Learning and deterrence is also derived from format-based reference groups. The first same-format player to enter a new CEE market clearly sends a positive signal. However, because same-format entries compete directly for the same consumers, they tend to exert a deterrent effect on the timing decision. In contrast, different-format entries accelerate the own entry decision. Although different-format entries are informative about the market potential, they are perceived as less threatening. Still, after retailers have made the decision to enter, the commitment level of their same-format rivals provides relevant information about how the retail concept is accepted. Previous studies show that managers tend to ignore competition when making routine (e.g., promotional) decisions in stable environments (Steenkamp et al. 2005). Our findings indicate that they are less inclined to do so when making more strategic decisions in uncertain conditions.

Apart from the interorganizational learning derived from observing competitors’ moves, intraorganizational learning is also relevant because both global and regional experiences, as well as near-market cultural and economic knowledge, are organizational factors that explain international expansion into emerging markets. Moreover, as retailers enter many different countries at a fast pace, it becomes more difficult to allocate considerable resources to each of them.

Retailers with a large private-label share in their home market tend to be later, smaller-scale entrants. On the demand side, matching new customers’ assortment preferences may take longer when private labels substitute for the better-known and, in the case of emerging markets, long-expected (inter)national brands. On the supply side, a reliance on private labels as in the home market may entail drastic and time-consuming investments in the target country. For example, Tesco needed to convince its private-label suppliers to set up offices in CEE to avoid the costly need to ship these goods from its U.K. home base (Benady 1997). Retailers can respond to the growing saturation in their home market by diversifying along two dimensions: across product boundaries (e.g., by adding new lines to its private-label program) or across market boundaries (by entering new countries). Our findings suggest a trade-off between both options.

The strong impact from rivals might be interpreted as supporting the view that in their rush to internationalize, retailers are motivated less by the chance of creating value in these new markets than by their fear of being left out by their competitors. Still, economic considerations are not ignored, because negative effects are found for most economic difference variables.

Finally, we find that firms that enter late open a smaller number of stores in their initial year. Gielens and Dekimpe (2001, p. 236) study whether it is better for retailers to “quickly enter a market on a more limited scale, or to postpone entry until more resources have accumulated to enable a large-scale commitment.” Our findings show that retailers follow a third strategy, in that firms that are cautious in their entry timing exhibit a similar constraint when deciding on their commitment level.

Improving Through Industry Wisdom

Entry decisions are infrequent and, especially in emerging markets, difficult. Managers have limited own experience with such decisions and therefore turn to prevailing practices in the industry to learn which decisions are good or even best (Anderson 1988; Geletkanycz and Hambrick 1997). As we indicated previously, competitive entry decisions are indeed monitored closely, providing a significant input in the retailers’ decision processes. However, the wide variation in both the year of entry and the number of stores opened indicates that this does not imply a mere copying of the most popular (modal) pattern; rather, industry rules suggest different entry decisions contingent on external (e.g.,
host-market attractiveness) and internal (reflecting each firm’s specific resources) conditions.

Does it pay to adhere to this “combined industry wisdom”? Do firms whose entry timing and size conform to the pattern of decision making in the industry (as captured in our descriptive models) perform better than firms that deviate from these rules? If so, are these performance premiums temporary or permanent? For which decision, timing or size, is adherence to industry practice more critical? Finally, when in doubt, is it better to be cautious and enter later with fewer stores than industry practice would prescribe, or is it better to take a bolder stance?

To answer these questions, we link postentry performance with the extent to which actual entry decisions deviate from the values prescribed by prevailing industry practice. We measure postentry performance in terms of sales efficiency (i.e., the total annual sales of the foreign subsidiary relative to the chain’s total store surface in that country). We measure short-term performance three years after entry, and we operationalize long-term performance as the asymptotic performance level to which the foreign operation is converging, obtained by fitting a Gompertz growth model through the entries’ performance data (for an in-depth discussion on this procedure, see Gielens and Dekimpe 2001). We link the logarithm of the absolute value of the deviations from industry practice (i.e., our model’s residuals) to the log of the performance measure, giving the parameters an elasticity interpretation. In deriving these elasticities, we control for various other factors, such as strategic entry decisions (e.g., size and timing of entry) and several other retailer-specific (e.g., private-label share, firm size, and international experience) and host-market-related (e.g., the extent of liberalization, geographic and cultural distance) factors that could influence postentry performance.9

As Table 3, Panel A, shows, deviations from prevailing industry practice, in terms of both timing and size, hurt short-term efficiency ($\eta_{SR} = -.25, p < .05$; $\eta_{SR} = -.17, p < .05$, respectively). However, the detrimental effects of entering at a different time from the industry norm persist and are even amplified in the long run ($\eta_{LR} = -.67, p < .05$), whereas they have only a temporary effect for size deviations ($\eta_{LR} = -.20, p > .05$). Thus, corrective actions are easier to implement along the size than along the timing dimension.

In Table 3, Panel B, we allow for asymmetric effects of entering slower (at a smaller scale) versus faster (at a larger scale) than industry practice prescribes. In terms of size, short-term efficiency is hurt only when the firm enters with too many stores ($\eta_{SR} = -.35, p < .05$), but again, this effect disappears over time ($\eta_{LR} = -.14, p > .05$). This suggests that corrective actions can be taken by closing some of these stores or that the firm’s growth eventually justifies the higher number of stores. However, when entering faster ($\eta_{SR} = -.57, p < .05$) or slower ($\eta_{SR} = -.18, p < .05$) than industry practice would prescribe, short-term efficiency is again hurt, but only the latter effect persists over time ($\eta_{LR} = -.76, p < .05$). Therefore, disadvantages associated with too late of an entry prove to be difficult to reverse (Lieberman and Montgomery 1988).

Day and Reibstein (1997, p. 8) identify two strategic errors that companies often make in a dynamic business setting: “the failure to anticipate competitors’ moves and the failure to recognize potential interactions over time.” Our

---

8We refer to the work of Gielens and Dekimpe (2001) for the precise operationalization of these control variables. Detailed results on their impact are available on request.

---

| TABLE 3 | Implications of Deviations from the Industry Norm |
|---|---|---|---|---|
| | **A: Performance Implications** &nbsp; | &nbsp; | &nbsp; | &nbsp; |
| **Absolute Value Residual** | **Short-Term (Three-Year) Efficiency** | **Long-Term (Asymptotic) Efficiency** |
| &nbsp; | $\eta_{SR}$ &nbsp; &nbsp; | &nbsp; | $\eta_{LR}$ &nbsp; &nbsp; | **t-Value** | **t-Value** |
| Timing | -.25 | &nbsp; | 2.21* &nbsp; | &nbsp; | -.67 | 1.92* |
| Size | -.17 | &nbsp; | 2.06* &nbsp; | &nbsp; | -.20 | 1.01 |

| **B: Asymmetry of Performance Implications** &nbsp; | &nbsp; | &nbsp; | &nbsp; | &nbsp; |
| **Absolute Value Residual** | **Short-Term (Three-Year) Efficiency** | **Long-Term (Asymptotic) Efficiency** |
| &nbsp; | $\eta_{SR}$ &nbsp; &nbsp; | &nbsp; | $\eta_{LR}$ &nbsp; &nbsp; | **t-Value** | **t-Value** |
| Timing | &nbsp; | Faster than predicted | -.57 | &nbsp; | 1.77* &nbsp; | &nbsp; | -.23 | .33 |
| &nbsp; | Slower than predicted | -.18 | &nbsp; | 1.81* &nbsp; | &nbsp; | -.76 | 1.99* |
| Size | &nbsp; | Larger than predicted | -.35 | &nbsp; | 2.14* &nbsp; | &nbsp; | -.14 | .21 |
| &nbsp; | Smaller than predicted | -.14 | &nbsp; | 1.46 | &nbsp; | -.49 | 1.47 |

*p < .05 (one-sided).
descriptive model shows that it is possible to infer competitors’ future entry behavior and to incorporate how they will likely react to own decisions. As such, we developed a tool for strategic competitive reasoning (Montgomery, Moore, and Urbany 2005). Moreover, we show that when firms make infrequent, strategic decisions in uncertain environments, they pay close attention to prevailing practices in their industry. This extends recent findings that managers tend to ignore competition when making routine, tactical decisions in stable environments (Steenkamp et al. 2005). However, rather than just imitating the industry’s most popular or modal decisions, they follow a more intricate, contingent approach. Not only do they pay more attention to some competitors than to others, but they also adjust for the specificity of their own resources and for changed circumstances over time. Finally, we find that firms are justified to adhere closely to industry practices because both short-term (for timing and size) and long-term (for timing) performance is hurt when they deviate from the underlying industry rules. In line with the work of Fredrickson (1984) and Anderson (1988), we find that defying combined industry wisdom in volatile and uncertain settings hurts performance, suggesting that a firm’s attempts to develop its own, distinct rules are likely to be dysfunctional.

Further Research and Limitations

The current study has several limitations, which offer useful areas for future research. First, our hypotheses about the impact of interorganizational learning are inspired by the density dependence model. On the basis of two underlying forces, legitimation and competition, we derived the testable proposition that the relationship between entry and density takes the form of an inverted U. As is common in the population ecology literature (see, e.g., Carroll and Hannan 2000), we did not derive distinct measures for the concepts of legitimation and competition, but we used them as underlying forces to motivate our expectations. Although this practice of deriving a testable hypothesis about the observed net outcome variable is frequently used in the marketing literature on the relationship between ad repetition and attitude toward the ad (e.g., Rethans 1986), on the effect of stress on job performance (Singh 1998), and on the satisfaction–loyalty relationship (Augustin and Sing 2005), we believe that the derivation of direct measures for the underlying processes could offer useful additional insights. For example, this would make it possible to test whether the inverted U is indeed caused by the specific slopes of these two underlying factors or whether other drivers should also be taken into account. Second, although we included several retail-specific characteristics as control variables, more work is needed to capture differences in their functional capabilities (Dutta, Narasimhan, and Rajiv 1999). Third, our sample consisted of all entries made by Western European food retailers into CEE. The question remains whether our results can be generalized to other industries. Moreover, we did not consider any cross-continental moves. These are still less frequent, quite recent, and not yet well documented. It would be worthwhile to investigate whether our findings generalize to these more distant internationalizations. For example, does the role of cultural and/or geographic distance increase when dealing with cross-continental expansions? Moreover, although Western European food retailers account for more than 90% of all international entries in the sector in the considered time span, the gradual international expansion of U.S. retailers was not reflected in our sample. Moreover, given Wal-Mart’s unique position, the extent to which other U.S. retailers will perceive its presence in a particular host market in the same way they would interpret the international expansion decisions of other U.S. competitors is unclear. Indeed, Wal-Mart may be considered a reference group on its own. Finally, foreign entries reflect a lumpy investment. We did not consider subsequent growth opportunities, which involve more incremental investments. Different processes underlie these two expansion decisions (Bar-Ilan and Strange 1999), if only because different strategies are available to reduce the intrinsic uncertainty. In the case of an initial entry, no own experience into the specific target market is present within the company. Therefore, external sources of information (e.g., an observation of competitors’ moves) are crucial to reduce the perceived level of uncertainty. In contrast, decisions for future growth can be driven by own experience in the market, thus allowing a more direct approach to uncertainty reduction. However, the role of other players’ moves in influencing these decisions is still unclear.

REFERENCES


