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**AN INSTITUTIONAL PERSPECTIVE ON
RETAIL INTERNATIONALIZATION SUCCESS:
HOME DEPOT IN CHILE**

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**AN INSTITUTIONAL PERSPECTIVE ON RETAIL
INTERNATIONALIZATION SUCCESS: HOME DEPOT IN CHILE**

ABSTRACT

This study utilizes institutional theory to assess the effect of the host institutional environment on the success of internationalizing retailers. According to this framework, retailers succeed in international markets when they adapt their retail format and practices to the salient institutional norms in the host market and achieve legitimation from the relevant social actors. This framework was used in a case study of Home Depot's entry into Chile in 1998 and its exit three years later. Findings showed that Home Depot lacked legitimacy in Chile because they failed to offer the range of merchandise and store atmosphere demanded by the traditional family shopping activity, and because their management team did not embed themselves in the broader social network. It was also apparent the competition had anticipated and responded to Home Depot's source of competitive advantage and that Home Depot's scale was not great enough to command any advantages in the supply chain network.

KEY WORDS: retail, internationalization, success, legitimacy, home depot, chile

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INTRODUCTION

An industry that has rapidly become more internationalized is retailing. Many of the world's prominent retailers already derive a significant proportion of their sales from international operations. Wal-Mart, for instance, has 1,288 stores in its international division, which generate 16.7% of its annual sales (Wal-Mart Annual Report 2003). Although these retailers are very successful in their home countries, they often encounter difficulties in the foreign marketplace due to the complexities of local zoning regulations, and differences in consumer tastes and local workforces. These obstacles hinder retailer international performance and although retailers are successful in some markets, at the same time they may lack success in other venues.

A recent example of mixed internationalization performance is shown by the U.S. retailer of home improvement, Home Depot. This firm internationalized successfully to Canada in 1994, and continued its internationalization process by entering Chile in 1998 and Argentina in 1999. Although Home Depot believed that its source of competitive advantage would lead to success, operations in Chile and Argentina resulted in losses that led to withdrawal from both countries (El Mercurio, Sept. 29, 2001).

These ineffective internationalization efforts suggest that a retailer's home-based source of competitive advantage may not be transferable to all markets. Previous studies show that differences in the environment between countries can diminish the effective transfer of the source of competitive advantage (e.g., O'Grady and Lane 1996). However, more research is needed to better understand what elements of the host environment of a

foreign country affects the behavior and performance of international retailers, and how retailers can deal effectively with these differences to achieve success. Thus, the main objective of this study is to address retail internationalization success, and specifically the impact of the foreign environment on the performance of international retailers. For this purpose, institutional theory is introduced as a theoretical framework for attaining this objective.

Institutional theory is a theoretical perspective that focuses on organizational conformity to economic and social norms. Institutional theory suggests that every country has a set of relevant institutional norms that retailers must conform to in order to be perceived as legitimate by the relevant social actors. These norms are described as *institutional norms of retailing*, and variation in the saliency of these norms of retailing across countries is attributed to differences in their history, culture and economy. Overall, this institutional approach suggests that internationalization success will increase when retailers achieve legitimacy from social actors by adapting their practices and structures to the salient institutional norms.

An empirical base is developed through a case study of Home Depot's operation in Chile. The findings support the contention that differences in the saliency of institutional norms of retailing exist between the home and host country (in this case the U.S. and Chile). Furthermore, the data suggest that the lack of retail internationalization success for Home Depot was affected by the inability of this international retail firm to gain legitimation from relevant host social actors in Chile, as a result of not complying with the salient institutional norms of retailing of this new market.

This study contributes to the field of retailing by providing new insights on the internationalization process of retail firms. Specifically, it attempts to identify some of the environmental factors that might affect internationalization success for retailers in foreign markets, a concept that is still under researched. For international retail managers, a contribution of this study is the acknowledgement of variation in the institutional environment across countries and the understanding the effect of these differences on retailer performance.

LITERATURE REVIEW

The process of retail internationalization has been the subject of recent theoretical and empirical research (e.g., Alexander and Myers 2000). Due to this increased retail internationalization activity, a vast amount of retail literature has emerged that looks at motives for retail international expansion (e.g., Treadgold and Davis 1988; Wrigley 1989; Alexander 1990 1995; Williams 1992; Myers 1995), the extent and direction of international retail activity (Robinson and Clarke-Hill 1990; Treadgold 1991; Davies and Sanghavi 1995; Sternquist 1997), individual company experiences (Sparks 1995; Clarke and Rimmer 1997; Laulajainen 1991; Wrigley 1997), and divestment (Alexander and Quinn 2002). Additionally, several theoretical frameworks attempt to address the retail internationalization process (Salmon and Tordjman 1989; Dawson 1994; Sternquist 1997; Vida and Fairhurst 1998; and Alexander and Myers 2000).

Although the contribution of these studies is notable, retail scholars insist that more theoretical work is needed, especially on post-internationalization aspects such as internationalization success (Alexander and Myers 2000; Akehurst and Alexander 1996). For example, Alexander and Myers (2000) noted “while specific research work has

established an understanding of what has happened and the pressures and tensions that have influenced international activity, a suitably developed conceptual framework has not been achieved”.

Retail Internationalization Success

Research that addresses internationalization success (and failure) has been generally composed of historical case studies of specific retailers (e.g., Sparks 1995; Dupuis and Prime 1996). These studies suggest that the foreign environment may have an important impact on internationalization success. Regulatory, geographical, economic, cultural, psychic and administrative differences between countries are seen as generating costs, risks, and barriers for internationalizing firms (Davies 1995; Alexander 1997; Dupuis and Prime 1996; O’Grady and Lane 1997; Samiee 1995; Ackerman and Tellis 2001). For instance, Wal-Mart has made slow progress in expanding their European business due to regulations on pricing and promotions and on store opening hours as well as strict land planning regulation (Guy 2001). This research also highlights that it is important not only to understand environmental differences, but also to adapt properly to new conditions to achieve success (O’Grady and Lane 1997; Evans et. al. 2000; Tordjman 1988). For example, Peñaloza and Gilly’s (1999) work on acculturation showed that retailers frequently interacted with other relevant agents in the market place in addition to consumers, such as family, employees, channel members, competitors, and business associations.

Overall, the current paper emphasizes that international retailers must consider elements of the social environment (e.g., family, community and social responsibility) as well as elements from the economic environment of retailing (market, suppliers,

competitors, consumers) to achieve retail internationalization success. This is consistent with previous studies that show that retail actions are affected by pressures from their institutional environment (e.g., Arnold, Kozinets, and Handelman 2001). Continuing with this line of reasoning, and drawing from organizational theory, we introduce institutional theory as an alternative approach for addressing the internationalization of retailing.

Institutional Theory

Institutional theory views organizations as embedded in networks of social relationships (Granovetter 1985). The main premise of institutional theory is that the institutional environment is composed of institutions that exert normative pressures for the structures and practices of social actors (DiMaggio and Powell 1983; Scott and Meyer 1983). Under this theoretical framework, the ultimate goal of a firm is survival, and organizations conform to institutional norms, to increase their legitimacy and survival capabilities (DiMaggio and Powell 1983; Meyer and Rowan 1977).

Institutional theory directs the attention to the relevant *social actors* who participate in the organization's environment, who are not just competing firms, suppliers, employees or consumers, but also trade associations, professional boards, church, unions, government, politicians, families and environmental protection or consumer activist organizations. These social actors are crucial in an institutional framework because they shape the relevant institutional norms in the organization's environment and at the same time, respond to them by conforming to these norms.

Institutional norms refer to appropriate expectations of behavior that are acceptable within an institutional environment, and act as unwritten rules of proper social conduct to which organizations must adhere in order to become legitimated (Scott 1987).

For culturally similar countries, such as the U.S. and Canada, retail practices may need little modification. However, in other cases, the saliency of norms of retailing may differ significantly across countries. *Saliency* of institutional norms of retailing refer to the importance that social actors within a country assign to certain norms over others. Norms that are much more linked with idiosyncrasies and cultural values, will probably differ across countries. For example, some countries may consider the norms of nationalism as salient over other norms when legitimizing an organization due to historical events such as wars, or invasion.

Organizational legitimacy represents the end result of evaluation by social actors, who compare the organization's actions and practices to established norms that exist within the organization's environment (Suchman 1995). Legitimacy of an organization influences the willingness of social actors to support that organization (e.g., Handelman and Arnold 1999). However, in an international context, organizational legitimacy is more complex because international organizations are simultaneously subject to institutional pressures by social actors in the home market (e.g. parent firm), and the host market (e.g., host consumers). This implies that suppliers, consumers, agencies and other relevant social actors from both the domestic and international environments must be considered for legitimation purposes. Thus, the conceptualization of internationalization success under this institutional approach is the ability of international firms to gain legitimacy from relevant social actors by conforming to institutional norms of their environments.

Consumers legitimize retailers that adhere to norms of low prices, convenience, assortment, quality, and service. Suppliers legitimize a retailer based on the adherence to

relational norms and fair exchanges. Employees will legitimize a retailer that conforms with human resource practices, and consumers will legitimize a retailer that provides competitive prices, wide assortment, service quality and convenience. Governments legitimize international retailers based on their compliance to laws and regulations. Additionally, families will legitimize a retailer that provide facilities and entertainment for the family, and support for the community. Finally, shareholders will legitimize a subsidiary based on its profitability and performance. Overall, international retailers that conform to the salient norms of retailing for all relevant social actors are thought to be more legitimate, and better supported by social actors.

RESEARCH METHODOLOGY

Case study methodology was used to apply the institutional model of retail internationalization success. Case studies allow the possibility of studying an organization and its environment in a natural setting and obtaining rich insights into complex processes (Yin 1994). Specifically, the case of Home Depot's entrance and withdrawal from the Chilean market was chosen because the context of this case is highly pertinent to the objective of this study (Stake 2000).

Fieldwork and Data Collection

Following the recommendations of Yin (1994), Eisenhardt (1989), and Stake (2000), the fieldwork proceeded in two phases that preceded and followed the withdrawal of Home Depot from the Chilean market. The first phase took place in the three-month period, from October to December 2001. Home Depot had already announced its intention to withdraw from the market. The second phase from January to April 2002, following Home Depot's sale of its stores to its local partner Falabella. Home Depot was

re-named Home Store and a new logo was introduced, but there were few changes in the format and merchandise. Data collection activities ended after seven months of fieldwork and resulted in a database containing a 53-page field diary, 22 audiotapes, and 233 pages of single spaced interview transcripts in Spanish and English.

Historical research and information of the industry and main actors was included in this analysis, such as web pages with corporate history, dissertations related to the industry and other publications. Press articles related to the retailing industry of the past 10 years from Chilean newspapers and magazines (e.g., El Mercurio, Estrategia, El Diario, and Revista Capital) were also collected during the months of study. Other related documents in the database were industry reports, government publications, and press articles. Recommendations from Golder (2000) were used to evaluate the authenticity of the sources of evidence, and the evidence itself.

Comentario [SJA1]: This sentence repeats a similar sentence on p.12 and can be deleted.

Participant observation was used to examine the actual retail practices used by the main different social-actor competitors in the field of home improvement retailing in Chile (Sodimac-Home Center, Easy, Home Depot, Constructor, Construmart), in order to infer the salient norms of retailing within this field. This was done through observation of the following retail practices of the five major retailers of home improvement located in Las Condes, Santiago: (1) store layout and atmosphere, including parking, decoration, symbols, colors and light; (2) general merchandise display and assortment, (3) employee attire, (4) hours of operation and special services to consumers, and (5) practices related to societal norms (community, family, nation). Visits were made to the five stores during different times of the day, for a period of one week during the month of November 2001.

Interviews followed McCracken (1988)'s long interview approach, and followed the required procedures from the university ethics committee. During Phase 1, nine interviews with experts in the field of home improvement /DIY in Chile were conducted, and the interviews ranged from 45 to 100 minutes, with an average of 70 minutes. Informants were recruited by the first author based on their representativeness and knowledge of this field, through a pre-specified procedure. Real names were changed for purposes of confidentiality. During Phase 2, five additional interviews were held with executives that had participated in Home Depot's operation in Chile as employees, advisors, or partners, and six interviews were held with end consumers. The duration of the interviews ranged from 45 minutes to 95 minutes, with an average of 68 minutes.

Data Analysis and Interpretation

Following McCracken's (1988) final step of discovery of analytic categories, and Spiggle's (1994) work on analysis and interpretation of qualitative research, inferences resulted from the process of analysis and interpretation used to generate conclusions, insights, and connections to the conceptual framework or theory. The main objective of the analysis and interpretation of the interview data was to determine categories, relationships and assumptions based on the respondent's opinions of the topic through a movement from data to observation and to conclusions, and at the same time by iterating with the theory (McCracken 1988). This analytic process consisted of several stages each representing a higher level of generality, in a circular way to arrive at conclusions, and to generate or confirm conceptual schemes and theories that describe the data.

Interpretation of the data occurred by iterating back and forth from the data to the theory and back to the data again in order to make sense of the data. The main goal was

to obtain a holistic and illuminating grasp of meaning (Spiggle 1994). Overall, interpretations of the data, along with triangulation from participant observation and institutional analysis resulted in common themes.

RESEARCH FINDINGS

Home Depot is the world's largest home improvement retailer, selling a broad assortment of merchandise at competitive prices to do-it-yourself consumers, professional contractors, and builders (www.homedepot.com). Home Depot was founded in 1978 by Bernie Marcus and Arthur Blank, and in 2001, the firm had more than 1,300 stores open throughout the United States, Canada, Puerto Rico, Mexico, Argentina, and Chile (www.homedepot.com). Home Depot reported net sales of \$53.6 billion during the fiscal year 2001, which represents an increase of 17% from the previous year with approximately 250,000 people employed in the company (www.homedepot.com). Additionally, for six consecutive years, Home Depot has been ranked, by *Fortune* magazine as America's Most Admired Specialty Retailer (www.homedepot.com). According to its founders, Home Depot's main source of competitive advantage is "The Three Legged Stool Strategy," which consists in providing consumers with wide assortment, low price and high service quality (Marcus and Blank 1999).

Home Depot started its internationalization process, by entering Canada in 1994, followed by Chile in 1998, Argentina, 1999, and Mexico in 2001 (www.homedepot.com). The first Home Depot store in Chile opened on August 28th 1998, with 400 Chilean associates, and a partnership with a local firm, Falabella. The President of Chile and his wife attended the inauguration, and thousands of consumers visited this store during the first months (Marcus and Blank 1999, p.301). Home Depot

implemented its standard retail format in Chile because it worked well in the U.S. and Canada. The owners believed that Home Depot would soon dominate the Chilean market because of its low prices and excellent service quality. A second Home Depot store opened in December of 1998, and by the end of the year 2000, Home Depot had opened five stores in Chile.

However, after three years of operating in Chile, the reality was very different from the initial prediction. Home Depot's operation in Chile resulted in losses that reached Ch\$658.4 million in the first semester, which was 149% more than in the same period of the year 2000 (Diario El Mercurio, Sept. 29, 2001). These results were mirrored in Argentina, and this situation led the company to announce the intention to exit both countries in Oct. 25, 2001 (www.homedepot.com). Chilean operations were sold to its partner Falabella SAIC in Jan. 2002.

Salient Norms of Home Improvement Retailing in Chile

Respondents thought that the industry of home improvement and DIY in Chile was much less developed than in the U.S., and still very fragmented, with the top three retailers representing only 20-25% of the market. Additionally, although Home Center and Home Depot had been trying to develop the concept of DIY in Chile, this was still not seen as a common practice for Chileans. Respondents indicated that in Chile, people don't repair their homes by themselves, and instead prefer to hire contractors or "maestros" to repair or renovate their homes.

Today the DIY market in Chile is definitely not developed. First, it is necessary to make a very big change on society because people do not like

to make their own things, and prefer to delegate it to a third person (Ricardo, retail marketing manager).

Honestly, I don't think that it works in Chile because people don't like to read instructions, they don't have the necessary tools, and this complicates things and makes it more expensive than hiring a maestro. In the U.S., people have their garages converted into a workshop, and you can make or fix anything with lots of different tools. In Chile, nobody has the collection of tools needed to make repairs, or the necessary information (Anita, contractor).

I don't paint or fix my house by myself because I find it very difficult. You have to have some kind of expertise to do this. If I start painting my house I will probably make a mess, the paint will fall on the floor. So, I prefer other people do the job. In addition, I don't find the cost of hiring a maestro high. If I decided to paint the rooms, then probably it would take me much longer and I would have to quit working. I find that this is a bad investment (Carmen, consumer).

This difference in the level of development of DIY activities between the U.S. and Chile was reflected in a lower level of consumer involvement in DIY activities. Consumers gave more importance to the attractiveness of the store, service quality, assortment of merchandise for the home, and decoration products, rather than DIY assortment or low price.

The most important attributes for consumers selecting a store is the novelty of products, and the possibility of new ideas and projects for the

home. Another important attribute is service quality, and the clinics. The location of the store is important, but not only the closeness to the home, but also the access to the store. Although prices are important, the general atmosphere of the store must be attractive with a focus on the family (Ricardo, retail marketing manager).

In contrast, for contractors and the more involved consumers, salient norms consisted in low price, DIY merchandise assortment, location, and parking facilities.

I buy where it is cheaper. It is also important that the parking space is wide, with the possibility of loading products directly into my truck.

Location of stores is important because they must be close to the construction sites (Jose, constructor).

Differences between Chile and the U.S. were also found in the importance given to relationships and communication within the industry. For example, respondents indicated that competitors and suppliers regularly met at social or business events and often communicated by phone. Thus, relational norms were more salient in Chile than in the U.S., which is consistent with the collectivistic nature of Chile (Hofstede 1980).

“I talk very often with my competitors. There is usually much communication in this market among competitors. This is very Chilean, but the people at Home Depot weren’t allowed to do so” (Patricio, Home Depot Chilean Manager).

In addition, the data suggests that membership in business group or belonging to a business family is highly valued in Chile and impacts the performance of foreign executives in the fact that they are not perceived trustworthy. Latin American cultures in general have a fairly low level of trust in people who are not family or close friends.

Chileans in particular, although they will confront risk, do not trust easily (Eyzaguirre 1967). A common trait among Spaniards is that they are usually loyal first to their families, second to friends, third to the friends of the family, next to friends of the friends, and lastly, to the beggar in the path (Albert 1996).

Being general manager of an important firm in Chile is like being member of a club. They attend similar clubs, vacation resorts, [and] conferences. They socialize with their families, [and] their children go to the same private schools. There is a whole cultural and social aspect of the Chilean society that may be hard to understand for some foreign executives (Mario, consultant).

The saliency of family norms for retailing was also much higher in Chile than in the U.S., a product of the importance of family members in Hispanic countries, and also because of the presence of traditional gender roles still present in Chile, where women are in charge of the homes, and men of working outside the homes. The strong sense of family and the loyalty owed to family are evident in all aspects of social life in Latin America (Albert 1996). Assortment of home products becomes more salient for consumers shopping with the whole family. Store layout and physical environment is expected to be comfortable, pleasant, nicely decorated and with places for consuming food because of the family nature of the shopping activity on weekends.

We have done several studies with consumers, and we have found that women decide where the family will shop, especially during the weekends (Ricardo, retail marketing manager).

My time is very valuable and I don't want to waste my time during a Saturday or Sunday looking for merchandise because I prefer to go home and spend time with my children (Harry, consumer).

Prices are not important for me or my wife at all. The most important attribute for choosing a store is the product offering. I like to find new merchandise and decorations for my home. I am also interested in leaving the store happy (Pablo, consumer).

Some of the male informants indicated that usually their wives shopped for decoration and home products, while they preferred to shop for home improvement products. Although these male respondents enjoyed shopping at Home Depot, and considered that it provided lower prices, their wives didn't like the store and preferred to shop at Home Center or Easy.

On week-ends, I can't go to Home Depot with my wife, because she finds Home Depot boring and ugly. However, if I have to buy home improvement products I would go to Home Depot because it is cheaper (Jose, constructor).

I liked Home Depot because I am a constructor, and the store has wide aisles and better prices than Home Center, but my wife definitively didn't like it. She found it too big, too cold, not many things for here to shop. Many people visited Home Depot stores, but they didn't like it and went back to the format that suited them best (Pablo, supplier).

Additionally, the data showed that the Chilean business community and professional associations were relevant social actors in the general retail industry in

Chile. Because retailing is an important activity in Chile, retail executives are important people and are expected to behave properly according to socially established norms. The data suggest that these salient norms for retail executives consist in having high levels of education and income, and also belonging to an aristocratic Spanish social class. Personal relationships among retail executives were valued, and having a Chilean, educated background was a salient norm for retail managers and the general business community. However, these nationalistic expectations were clearly not aimed so much at Anglo backgrounds but at other Latin American countries that have a high level of native backgrounds (e.g., Mexicans, Peruvians or Central American). This can be explained by the institutional analysis of the Chilean society that suggested that Chileans try to forget their native roots.

There is a whole cultural and social aspect that may be hard to understand for some foreign executives. International companies tend to put in these top positions, people who are much lower socially and culturally than their peers in Chile. Since the size of the Chilean markets is much smaller, the top managers brought by these firms to Chile are generally store managers in a U.S. city with a socio cultural level much lower than a top manager in Chile. These people have a hard time integrating themselves culturally and socially to the Chilean society and reality. In other words, socially, these managers are not well accepted by their peer executives in Chile. For example, the executives of Home Depot in Chile were people of a very low cultural background. These people probably were store managers in the U.S., and their merit perhaps was to be a good manager of a city store

and in many cases the ability to speak Spanish. I think that all of them had relationship problems with their peers, with suppliers, and with Chilean executives from other companies (Mario, consultant).

Executives who don't comply to the norms of education are less likely to be perceived as worthy to participate in the business community and engage in personal relationships with other executives such as suppliers, bankers, and large customers. This lack of embeddedness (Granovetter 1985) hinders the performance of international firms with a lower probability of obtaining preferential locations for stores, discounts from suppliers, large construction projects from relevant firms, and perhaps higher interest rates for loans.

In conclusion, the empirical data suggest that differences between the home improvement industry in Chile and the U.S. are reflected in the saliency of the norms of retailing. Particularly, differences were found in the saliency of family norms that were higher in Chile than in the U.S., a product of the importance of family members in Hispanic countries, and also because of the presence of traditional gender roles still present in Chile, where women are in charge of the homes, and men of working outside the homes.

Consumers, and specially women, were found relevant decision makers for store choice, and were expected to find a wide assortment of general home merchandise in addition to DIY merchandise. This differed from the U.S., where 70% of Home Depot's sales came from DIY consumers (www.homedepot.com). Thus, although consumers were relevant social actors for home improvement retailing in both countries, their expectations of retail behavior differed. Other relevant social actors for home

Comentario [SJA2]: The paragraph I deleted is used later and you don't want to repeat yourself.

improvement retailing in Chile were local suppliers, competitors, business community, and families. Suppliers were relevant because much of the home improvement merchandise was bought locally. The business community was very relevant for home improvement retailers because of the strong influence they exerted on the behavior of retail organizations.

Legitimacy of Home Depot in Chile

The Chilean Home Depot office was considered legitimate by the parent firm, the international community, host contractors and employees. However, Home Depot Chile didn't achieve legitimacy from many relevant social actors in Chile such as its partner Falabella, Chilean managers, the business community, suppliers, competitors, families, and women. All of these social actors were relevant for Home Depot's legitimation in Chile. Falabella was well-respected in the Chilean market, with more than 50 years of retail experience, and was very unhappy with Home Depot's performance and attempted several times to participate in their decision-making, unsuccessfully.

Clearly Home Depot is very successful in the U.S., and I always thought that partnering with Falabella was a great idea, because of the experience of Falabella in this market. But Home Depot excluded Falabella totally from its operations in Chile. They even weren't allowed to participate in the meetings held by the board of directors. My impression is that these firms [from outside Chile] feel that it is a waste of time to try to combine their actions with a local partner, and they don't want to complicate things in an attempt to obtain consensual decisions (David, retail consultant).

Second, Home Depot executives were not well respected by the general business community, and by suppliers and competitors because of their low educational and social background.

The managers that Home Depot had were people from Central America. They had high levels of spending, they went to the best hotels, cars, and they flew in business class always. The company never learned how to adjust to a smaller market. They came into the market thinking of having a huge project. And they acted as if this huge project existed, when they only had 2-3 stores. So although these stores were profitable, the managers spent like crazy. The problem was when you summed up all the expenses then of course you had an unbalanced structure and losses. They were totally wrong in how they had to approach this market. They came to Chile and implemented a structure that seemed like they were going to take over the market (Henry, director of Falabella).

Comentario [SJA3]: Not sure what this phrase means.

Similarly, Chilean suppliers of home improvement merchandise found that Home Depot was not the large retailer that had been predicted, and consistently charged this new retail entrant higher prices while at the same time offering less favorable conditions. Although Home Depot paid suppliers on time, Home Depot was never able to sell a large enough volume to obtain the best purchasing conditions, so they never conformed to an important supplier norm.

They reminded us that they are the biggest DIY retailer in the world, and we didn't like their attitude. In fact, we didn't sell to Home Depot in two years, and during this period we even got closer to Sodimac. Home Depot

told us that they could import anything from the U.S. However, this is not so easy and at the least takes 60 days. As a result, they had many stock outs, and couldn't supply big projects. The managers were Chileans, but with an American style, with strict rules and norms. All their catalogues were in English (Juan, supplier).

Finally, women and family members considered Home Depot stores as unattractive, cold, not welcoming, and lacking attractive merchandise for them. The data show that almost all consumers preferred to shop at Home Center, rather than other retail stores, because of attractiveness of their stores and merchandise assortment, and the importance given to family norms.

I find Home Depot store ugly inside: a big and cold warehouse, which is very cold, especially in winter. There is no coffee shop, no place to stay, no seats. It is very, very uninviting. Home Center instead is a nicer and more comfortable store. It makes our work more fun. Home Depot is different from Home Center. Home Depot seems to have a wider assortment for the constructors or maestros, but not for me. In Home Depot there is no fun (Sofia, decorator).

In sum, Home Depot didn't comply with several salient norms of retailing in Chile, especially norms of family and relational exchange.

Reasons for Lack of Legitimacy in the Chilean Market

Although several reasons were mentioned above to account for Home Depot's poor performance in Chile, in general, the interview data suggested that Home Depot's lack of

success was the outcome of two main mistakes: a lack of managerial capability to operate in a foreign market and strong host competition.

Comentario [SJA4]: What is this supposed to mean? If you meant to say "two main mistakes" that seems inaccurate because while you list two mistakes below, there were several others mentioned earlier.

Comentario [SJA5]: I deleted this phrase and a sentence a paragraph later because it is contradicted by the comment of Pedro, the retail professor.

Lack of Management Knowledge of Local Norms. There was a consensus among respondents that the main problem of Home Depot in Chile was that it attempted to implement a standard retail format in Chile without any modification. According to expert respondents, this problem was due to the lack of knowledge of the Chilean culture by the management team of the Home Depot subsidiary. These respondents considered that the main problem with this American chain was that it didn't study the Chilean international market in advance, in order to determine the needs and requirements of consumers in this market. For example, Home Depot's store atmosphere and lay out of the store wasn't attractive for women consumers, who are the relevant decision makers.

Home Depot brought experts in retailing, but with little knowledge of our culture and of consumer preferences. This is not transferable directly. For example, you can't just take a know-how developed in another country and implement it here without adaptation. It has nothing to do with the fact of being American, because other American chains are successful in Chile (Pedro, retail professor).

Home Depot's format didn't work in Chile, because Chile has a different culture than the U.S. Home Depot didn't consider this difference in culture. They are masters in this business, and number one in the world, and they know very much about logistics and how this business works. But they didn't consider our market. They didn't put the customer in first

place. They said, this is what we have, take it or leave it. And the customer left it (Ricardo, retail marketing manager).

Strong Competition. Experts indicated that Home Depot encountered strong competitors in Chile, such as Sodimac with its Home Center format, and Constructor, Easy, and Construmart. Local retailers of home improvement had prepared for Home Depot's arrival, and were not only attempting to strengthen even more their performance on the salient societal-based norms, but were also improving their performance on the salient norms where Home Depot did perform well. Sodimac, especially, had actively prepared for Home Depot's arrival by developing an aggressive strategy of hiring a new CEO, training the employees, opening more stores, and improving logistics. Furthermore, Sodimac was seen as having fought strongly with Home Depot, and as having won the battle. Today, Sodimac is perceived as transforming into a much better company, more efficient, more profitable, with better service quality, better image, and better prices. In fact, other retailers such as Easy and smaller ferreterias (small, independent home improvement products retailers) had also followed Sodimac in this battle against Home Depot. For example, Easy had renovated all of its stores and had two store openings projected for 2002.

Home Depot came with a mentality a little presumptuous, thinking that their source of competitive advantage was going to be successful, but not recognizing that there was also a firm, similar to Home Depot, that was working in its own market, with a force much more rooted in Chile, a very efficient competitor (Jorge, manager of a trade organization).

Home Depot's Chilean competitors had a strong reaction when Home Depot entered, and were successful. Sodimac (Home Center) obtained the advantage over Home Depot mainly because its concept was slightly different and perhaps more realistic for the Chilean market. When Home Depot arrived, the first thing that Home Center did was to hire executives of Home Depot in order to try to copy as much as possible their model, but they also had knowledge of Home Depot's weaknesses (Mario, consultant to Home Depot).

Home Depot seemed to have overlooked its competition in the Chilean market, especially Sodimac. This was due to the lack of knowledge regarding the Chilean market, held by Home Depot's management team in Chile, who insisted in implementing a retail format without considering if it needed adjustment to compete with local retailers.

DISCUSSION AND CONCLUSION

This case study of Home Depot's entrance into and withdrawal from the Chilean market overall supports utility of using institutional theory to understand retail internationalization success. The data show that international success becomes a difficult mission, which depends on how well a retailer conforms to salient institutional norms of retailing in each country in which it operates in order to obtain legitimacy from social actors. In the case of Chile, home improvement activity is less often performed by the home owner and more by third party maestros. Furthermore, products and services in home improvement stores must reflect the broader interests of all family members performing traditional gendered shopping roles on a collective family shopping occasion. At the store and corporate level, managers and executives need to be embedded in a

broader network that reflects the higher social status of their positions in Chile in addition to facilitating informal communications with other relevant social actors. Additionally, appropriate prescriptions by their local partner were not heeded.

Beyond the failure to adhere to relevant societal and relational norms, the scale of Home Depot in Chile was not large enough to command the attention it would be accorded in its domestic market. Furthermore, Home Depot's competitors in Chile anticipated the US retailer's arrival and made changes to their own operations in order to blunt the impact of Home Depot's source of competitive advantage. Thus, retailer legitimacy is a difficult challenge for international retailers that come from a distant institutional environment, and requires them to not only have a source of competitive advantage, but additionally and most important, require an experienced management team to legitimate this source of advantage.

This study contributes and expands previous theoretical models of retail internationalization that address the potential effect of the social and economic environment on internationalization outcomes (e.g., Vida and Fairhurst 1998; Alexander and Myers 2000). Most of the environmental factors mentioned in the international literature as barriers that international firms encounter when expanding abroad, were reflected in the institutional norms of retailing. For example, host government laws, cultural factors, competitive factors and social elements were all reflected in the economic-based and societal based norms of retailing of each country. These environmental differences affected the success of Home Depot and other American retailers in Chile, because they had to operate in a new environment with different salient

Comentario [SJA6]: My sense is that other articles have considered this "potential effect" and what should be said here is that the use of institutional theory "expands previous theoretical models".

norms that were sometimes difficult to perceive. Social factors, such as relational norms and family norms, were especially important for Home Depot in Chile.

The interview data also suggest that the main mistake of international retailers who do not succeed is that they are unable to effectively legitimize themselves in this new environment. These findings confirm the notion that although internationalizing firms may be very successful in their home markets, many times they lose sight of environmental differences and the barriers that can exist in a new market, especially those related to the cultural and social environment. Specifically, the problem is that they transfer their source of advantage (e.g., retail format) from their home countries, but without considering potential differences in the host environment. For example, Home Depot tried to perform in Chile as they did in the U.S., without considering the need for adaptation. Overall, they thought that their retail practices would work well everywhere. Overall, these findings support previous retailing studies that view internationalization success as the ability of retailers to adapt and implement a retail concept to a new and different environment (Dupuis and Prime 1996; O'Grady and Lane 1997; Evans et. al. 2000).

Finally, the case study of Home Depot suggests that international executives and the top executives from the home country office must be continuously committed, alert, and flexible to adaptation during the whole internationalization process and host operation, and not only prior to entering the market. The internationalization process for retailers is a continuous and dynamic process, and does not finish once the retailer is already operating in a new market. On the contrary, this period is when retail executives must be most alert and committed to this endeavor. Future research should examine the

Comentario [SJA7]: Is this international or national headquarters?

managerial characteristics of international retailers necessary to increase the likelihood of success in foreign markets.

Implications for Managers

Managers that participate in the internationalization process should be able to perceive, understand and incorporate country differences in the internationalization strategy. This means that managers must be aware that differences exist among countries, even between geographically close countries such as the U.S., Mexico and Canada.

Comentario [SJA8]: Since you didn't earlier establish what these "stages" are, why not just drop this phrase?

The main issue for international retail managers is that they must adapt their retail practices and formats to fit the needs and expectations of host consumers, suppliers, employees, families, and business community. They must make modifications to their retail concept in such a way that they still maintain their source of competitive advantage. The main objective therefore, is to implement this source of advantage effectively and gain legitimation from all key constituencies. For example, while maintaining its retail format and most practices from the U.S., Home Depot could have increased legitimacy from end consumers by incorporating additional home merchandise, and also by improving the store atmosphere, light and layout. Home Depot could have also hired a Chilean executive to lead the operation in Chile, with a better knowledge of expectations and proper behavior among the business community.

Usually, internationalizing firms send store managers that have been successful in the home domestic market, as managers of their international operations. Although these managers have generally strong knowledge of the firm's source of competitive advantage, because of their position, usually they do not belong to the host country and have little knowledge of institutional pressures. The previous managerial implications

indicate that therefore it is necessary to train these international managers so that they can appreciate international market differences and be committed in responding to them, or else hire a local manager for the host operation.

In conclusion, international retailers from developed countries should not assume that their format would necessarily be successful in foreign markets. The level of saliency of the institutional norms and the strength of local competitors are both important to consider when deciding on the legitimation strategy.

Future Research

Additional research considering other internationalization successes and failures for different types of retailers would help enhance the conceptualization and understanding of the drivers for retail internationalization success. Another interesting avenue for future research is to apply the institutional approach for examining the internationalization process of other types of retailers such as grocery and department stores. Additionally, this approach could be applied to other countries.

Comentario [SJA9]: Why do you want to say this? You've said business models can't be applied to retail so why suggest retail models be applied to "other industries"?

Another topic that requires further investigation concerns retail management characteristics that can improve the likelihood of achieving retailer legitimacy in a foreign market. Antecedents of managerial international capability for retail firms must be identified. Finally, this study also suggested an alternative operationalization to retailer success in a foreign market, from traditional measures of sales and market share.

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