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EDITORIAL

Economic integration is a political and monetary agreement among nations where member countries enjoy favorable terms of trade. Following the success of the European Union, we observe integration efforts in different regions of the world. Economic integration brings structural changes in an economy, increases production, fosters trade, reduces unemployment, expands markets, and supports overall economic growth. It enhances efficiency and productivity. The negative arguments against economic integration center on unemployment, job replacement, and disparate levels of economic development. The study by Abu N. M. Waheeduzzaman investigates the impact of integration, in economics as well as in marketing area. Specifically, it investigates how integration affects in marketing and consumption in four regional integration groups during a 15-year period (2000-2014). The groups are the European Union (EU), the North American Free Trade Agreement (NAFTA), the Southern Common Market (MERCOSUR), and the Association of Southeast Asian Nations (ASEAN). Five different types of consumer expenditures data provided by the Global Market Information Database (GMID), Euromonitor represent consumption. Categories include audio-visual, photographic, and information-processing equipment; recreational and cultural services; milk, egg, and cheese; personal care; and total consumer expenditure. Results indicate that the level of integration has a direct positive effect on consumption in each economic group. Income, a mediating variable, also affects consumption. Countries within each group are coming closer to each other, i.e., consumption convergence is taking place. Findings of the study support pro-integration economic and political ideology. Regional economic integration is still a good initiative for the citizens of the blocs. Academics, practitioners, and policy planners across the globe can benefit from it. Industry specific micro level data could give us better understanding of the phenomenon and make the results of the study more generalizable.

The foreign direct investment (FDI) performance of a country indicates whether the inflow of FDI is commensurate with the country's potential to attract foreign investments. In the study by Wyk et al., the FDI performance of the Republic of South Africa is investigated. South Africa is a prominent emerging market and forms part of the BRICS group which includes Brazil, Russia, India, and China. In addition, South Africa has one of the most sophisticated economies in Africa. For investors, South Africa may be considered as an attractive location as a gateway to enter other African markets. From an institutional economics view, this analysis reveals that South Africa is an underperformer in attracting FDI relative to other BRICS countries, in particular, and to emerging markets, in general.

South Africa has a unique investment environment. The country's institutional quality exceeds that of most emerging markets which signals to investors that transaction cost for doing business in South Africa may be lower than in peer competitive countries. Despite its stronger institutions, the economic performance of South Africa has been poor in comparison with other BRICS countries. Its economic woes are reflected in low levels of economic growth and the rigidity of its labor market. South Africa has an abundance of low skill labor based on a high unemployment rate and a low rate of economic participation in the economy. Accordingly, the country has a high potential for outsourced jobs in manufacturing. The main obstacles to the outsourced potential of South Africa are the country's collective bargaining legislation and the power of the labor unions. The collective bargaining laws apply

to all potential workers whether they are union members or not. Extensive rules regarding wages and related benefits have made labor costs uncompetitive despite the abundance of available labor. The situation has been exacerbated by the entrenchment of labor unions as alliance partners of the African National Congress government in South Africa.

A number of policy recommendations are proposed for South African governmental policy makers. Primarily, the economy of South Africa must grow at a faster rate in order to attract FDI, which in turn, will complete a virtuous cycle by stimulating growth. The focus of government policy should be to attract FDI to industries by utilizing low wage and low skill labor. Such an investment will reduce unemployment, increase the economically active workforce, and increase per capita income. It is recommended that viable Special Economic Zones (SEZs) be established by the government. SEZs will be suitable for targeted investments since they offer favorable and competitive investment environments which are distinct from the national business environment and which are unencumbered by a debilitating collective bargaining system. In addition, continued strengthening of institutional quality through deregulation will make South Africa a more competitive environment for foreign investors and, consequently, further enhance the FDI performance of South Africa.

The paper by Karasiewicz et al. investigates the internationalization processes of the grocery retailing sector in Poland in the context of the country's economic transformation. It addresses the issues of the phases of the internationalization process, entry strategies of international retail chains, countries of origin of international entrants, and the retail formats brought and developed by international retailers in the Polish market. It is based on an analysis of secondary data concerning foreign retail chains operating in the Polish market and covers the period of 1990-2015.

The authors analyze key dimensions of international retailers' behavior and strategy, according to a research framework designed by the authors, and test four groups of hypotheses. The main conclusions of the analysis include (1) foreign chains dominate the grocery retailing sector—their market share was above 50% at the end of the studied period; (2) the internationalization phase took place between 1990 (beginning of the process) and 2001 (end of the process); (3) most common entry strategy followed by the foreign retailers was green-field investment; (4) the vast majority of foreign investors came from western European countries, and the dominant position is occupied by French retailers; and (5) foreign companies dominate in large retail formats (supermarkets, hypermarkets and discount stores).

International retailers operating in the Polish grocery market have played a positive role not only in the transformation and modernization of the retailing sector, but also in stimulating the changes and development in the whole economy. They have directly influenced all the stages in the distribution system in a positive way.

The objective of the research by Vargas-Hernandez and Zatarain is to analyze the overall level of international diversification and management capacity needed for a sustainable business development. An empirical study was conducted by using Inditex as a case example. To achieve the proposed overall goal, the following specific objectives were needed: to check international diversification, measured by the relationship of the business units, depending on brand positioning and sustainability, both as factors of support; and to check a good management capacity, measured by the development of its core competencies, depending on brand positioning and support sustainability factor.

Business development has a supportive relationship with international diversification, and is based on good management capacity. There are three interrelated research questions answered in this research: (1) What is the level of business development of Inditex? (2) What is the level of international diversification? and

(3) What is the management capacity Inditex possesses? As specific hypotheses: The branding and sustainability are a supportive factor for international diversification, measured by the relationship of the business units. The branding and sustainability are a factor of support for management capacity measured by the development of its core competencies. The company creates a unique value and possesses competitive advantages in distribution and supply chain management.

The research is supported by methods and theories tested in common business practices of most companies that have already ventured into internationalization processes, which have developed through trial and error a variety of approaches and practices for better international business development and adapting it to global markets. It is considered a qualitative approach because internationalization is geared to processes and guidelines related to culture, beliefs, politics, and individual factors in each country, in addition to being qualitative, relying heavily on the different perspectives that managers employ to these processes.

With regard to the initial hypotheses, they are confirmed since business development generates branding and sustainability. Possibly it depends on diversification into international markets and good management skills. The firm has an accelerated international diversification strategy in some markets where it develops a single management capacity. The precise moment to start the process of internationalization, how to do it, and how to identify the key points of both the company and the new market for export is to be established.

Erdener Kaynak
Editor-in-Chief

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ARTICLES

Effect of Economic Integration on Consumption

Abu N. M. Waheeduzzaman

ABSTRACT. The study by Waheeduzzaman investigates the effect of economic integration on consumption in four regional integration groups during a 15-year period (2000-2014) using regression analysis. The groups are the European Union (EU), the North American Free Trade Agreement (NAFTA), the Southern Common Market (MERCOSUR), and the Association of Southeast Asian Nations (ASEAN). Five different types of consumer expenditures data provided by the Global Market Information Database (GMID), Euromonitor represent consumption. Categories include audio-visual, photographic, and information-processing equipment; recreational and cultural services; milk, egg, and cheese; personal care; and total consumer expenditure. Findings indicate that the level of integration has a direct positive effect on consumption in each economic group. It also affects consumption indirectly through income, a mediating variable. Apparently, countries within each group are coming closer to each other—consumption convergence is taking place. The study advances our understanding of economic integration on consumption growth and convergence. Findings can be useful to academics, practitioners, and policy planners across the globe in the international area.

KEYWORDS. Level of Integration, Income, Consumption, Consumption Convergence, Mediation, Mediating Influence.

INTRODUCTION

Economic integration is a political and monetary agreement among nations and world regions in which preference is given to member countries in terms of trade, investments, and production. Initially, integration is achieved through removal of tariff and nontariff barriers and factor mobility. Fiscal and monetary cooperation and common currency are established at higher levels of economic integration.

The notion came into the limelight following the success of the European Union since the Treaty of Rome in 1957. Ever since then, we observed integration efforts across the globe in different regions of the world. The whole concept is under scrutiny because of the economic

Abu N. M. Waheeduzzaman, Ph.D. is a Professor of Marketing and International Business in the College of Business at Texas A&M University-Corpus Christi, Corpus Christi,Texas, USA.

Address correspondence to Dr, Abu N. M. Waheeduzzaman, College of Business, Texas A&M University-Corpus Christi, 6300 Ocean Drive, Corpus Christi, Texas 78412, USA, E-mail: waheed@tamucc.edu

crisis in Greece, performance of the less affluent nations in the European Union, Brexit, and the rise of right-wing populism in France, the Netherlands, and other countries. Arguments for and against the notion of economic integration inundate the popular press.

On the positive side, economic integration brings structural changes in an economy, increases production, fosters trade, reduces unemployment, expands markets, and supports overall economic growth. It enhances efficiency and productivity. We have seen the evidences in the EU, NAFTA, and other blocs. The negative arguments against economic integration center on unemployment, job replacement, and disparate levels of economic development. Arguments on both sides are present in the economics literature.

This study investigates the impact of integration in economics as well as in the marketing area. Specifically, it investigates how integration affects marketing or our day-to-day consumption. It further examines the existence of consumption convergence within a regional bloc.

The paper has seven sections. After the introduction, the objectives and contribution of the study are discussed. It is followed by a literature review in Section III. Then the models and hypotheses are presented in Section IV. Section V provides a methodology and data analysis. Findings are presented in Section VI. A conclusion is drawn at the end in Section VII. Limitations of the study are discussed in conclusion.

OBJECTIVE OF THE STUDY

Economic integration can affect consumption both directly and indirectly. In a direct relationship, a higher level of integration results in a higher level of consumption. Citizens in the EU will enjoy higher level of consumption than the citizens in other integration blocs because the EU is at a higher level of integration than other blocs. In an indirect relationship, consumption, *inter alia*, increases via income, the single variable most responsible for its growth. Regional economic integration enhances the economic growth that results higher income for the citizens within the bloc (*dynamic effect of integration*), and higher income favors higher consumption. Figure 1 depicts the relationship.

By design, all integration efforts have a leveling effect. Countries within a bloc are supposed to catch up with each other in terms economic growth—a possible corollary effect of that would be *consumption convergence*. Countries within the bloc should show signs of catching up over time. This could even be faster in blocs at higher levels of integration. This study is an attempt in addressing these issues with the following specific objectives.

1. Investigate the effect of economic integration on consumption growth in four regional economic groups: EU, NAFTA, MERCOSUR, and ASEAN.
2. Explore the difference in consumption because of the level of economic integration among different blocs/groups.
3. Examine the catching up or convergence in consumption within each regional bloc.
4. Offer policy suggestions for marketing, business, and social science disciplines.

LITERATURE REVIEW

This literature review discusses various theories of economic integration relevant to the objectives of the study. Specifically, those studies that elaborate the relationship between economic integration and consumption are highlighted. It also elucidates the issue of consumption convergence within regional groups. The discussion is limited to four regional groups of the study—EU, NAFTA, MERCOSUR and ASEAN.

Economic integration is one of the most popular debates in international economics and trade. The notion owes its origin to Jacob

Viner's (1950) classic postulation of static and dynamic effects of trade. Viner argued that economic integration shifts production from less efficient domestic producers to more efficient regional producers (*static effect of integration*) and that the gains from overall market growth help all in the region (*dynamic effect of integration*). Hungarian economist Béla Balassa (1967) propounded a popular articulation of the theory during the 1960s. He argued that that integration is an ongoing process, and it takes place incrementally in various stages; we observe a trajectory of integration. Usually, after the start, the members of the integrated blocs progress towards higher levels of integration. That is what we notice in the case of the European Union. Apparently, other integration blocs in Asia and Latin America are following suit. A brief elaboration of these efforts is presented below.

Integration Efforts and Level

Globally, economic integration can be achieved at three levels: (1) at the global level under the World Trade Organization (WTO), (2) at the regional level through integration efforts in various regions of the world (e.g., EU, NAFTA, ASEAN, MERCOSUR, or TPP), and (3) at the bilateral level between nations through free trade agreements (e.g., USA-Israel, USA-Jordan). Perhaps removal of tariff and nontariff barriers under WTO (formerly GATT) is the ideal way to integrate globally. With 164 members of WTO, the process can be cumbersome and time consuming. Negotiations of the Kennedy Round (1960s), Tokyo Round (1970s), Uruguay Round (1980s), and Doha Round (2001, ongoing) are a testimony to that. We have achieved a lot under these rounds of negotiation. The world is freer today than what we started with under the GATT agreement of 1947. GATT/WTO has made great progress. However, the process is very slow. The Doha Round (started in 2001) is still ongoing, and we have not been able to conclude it.

Perhaps, the slow "global integration" prompted nations to look for a "regional integration alternative" as the second best option to move forward during the 1950s (Lipsey & Lancaster, 1957). Six nations in Europe, viz, Belgium, France, (West) Germany, Italy, Luxembourg, and Netherlands, were the first to take a bold move towards a regional economic integration through the Treaty of Rome in 1957. During last 60 years, the European Union's regional integration process has made *slow but steady* progress.

Today, the 27-member European Union is the role model of regional economic integration. The success of the Union can be attributed to many factors including the following: learning from the suffering of the people during the two World Wars, common desire for peace and stability in Europe, geographic proximity and common European heritage, economic and trade interdependency, and a strong political will to keep Europe united. The economic crisis of Greece and Brexit are good litmus tests for their bond. So far, the support in favor of the Union is still high in Europe. The political defeat of Marine Le Pen in France and Geert Wilders in the Netherlands halted the right-wing nationalist populism, at least for the time being.

The story of economic integration comes in various shapes, sizes, and colors. Each one is different from the other. Typically, it begins with regional cooperation groups with a preferential trade regime with no serious tariff implication. The next level is the free trade area where there is no internal tariff among the member countries. Trade creation takes place, and regional producers win over local producers. The success of the free trade area leads to the formation of a customs union where countries outside the bloc face the same tariff regime. The establishment of a common market follows this with factor mobility. Complete integration is usually the last stage in the integration process. The transition from one stage to the other is difficult, and complexity varies by

group and by region. The levels/stages are summarized below.

1. Regional Cooperation Groups (no serious tariff reduction)
2. Free trade area (no internal tariff)
3. Customs Union (no internal tariff and common external tariff)
4. Common Market (no internal tariff, common external tariff and free factor mobility)
5. Complete Economic Integration (no internal tariff, common external tariff and free factor mobility, and common monetary and fiscal policy)

So far, the European Union is the leader in integration efforts and is in Stage 5. They started as regional cooperation group in 1957 (Stage 1). By 1992, they established a common market (Stage 4) by harmonizing all tariff and nontariff barriers. The Monetary Union treaty was signed in 1992 (Treaty of Maastricht) and came into being in 2001. As it stands, 16 countries are in the European Monetary Union and can be considered in Stage 5.

The market power and political leverage of the EU in WTO and other international bodies influenced the formation of another economic bloc in North America—NAFTA was formed in 1994 with Canada, Mexico, and the USA. A larger market gave more leverage to regional companies. The free trade area came into existence by 1994. NAFTA is in Stage 2.

Most other integration groups in the world are still in Stage 1, including MERCOSUR and ASEAN. MERCOSUR was established in 1991 by the Treaty of Asunción. Later, it was amended and updated by the 1994 Treaty of Ouro Preto. Currently, it has six members: Argentina, Brazil, Paraguay, Uruguay, Bolivia, and Venezuela. The association is at Stage 1. Apparently, they are at similar levels with ASEAN in terms of integration.

ASEAN was established in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Later, the organization's membership expanded to include Brunei, Cambodia, Laos, Myanmar, and Vietnam. Now, it is a 10-member integration bloc. Despite the sincere efforts of the leaders in the bloc, the association is still in Stage 1.

Integration and Convergence

The studies in economic convergence can be categorized into three groups: β-convergence, σ-convergence, and conditional convergence (de la Fuente, 1997; Durlauf & Quah, 1999; Temple, 1999; Islam, 2003). Both β and σ tests are tests of variance, the β-test examining slopes of the trend line and the σ-test studying the dispersion. By design, integration should lead to convergence. That is one of the stated goals of the integration process. However, empirical findings of β and σ tests show mixed results—we do not observe economic convergence across the globe (Artelaris et al., 2011). We do observe regional or club convergence in some parts of the world (Borsi & Metiu, 2015; Song et al., 2013). Economic convergence in EU/OECD nations is observed in some studies (Baumol, 1986; Dinga et al., 2009; Caminada et al., 2010; Cavenailea, 2011; Dowrick & Nguyen, 1989; Durlauf & Johnson, 1995; Galor, 1996; Li & Ayers, 2008; Li & Xu, 2007; Sala-i-Martin, 1996; Vojinovic, 2010). The notion of conditional convergence refers to the factors that cause convergence. Since causal research is not directly related to the objectives of this study, its discussion is avoided.

Apparently, consumption convergence is corollary to the economic convergence process. Kónya and Ohashi (2007) find convergence in OECD overall consumption patterns. Heterogeneity across product/product groups is also observed. Clements and Chen (1996) observe similarities between OECD and developing countries in a broad range of commodity groups despite the income difference between OECD and developing nations. Angulo et al. (2001) indicate some form of convergence in calorie intake in European countries; country idiosyncrasies were notable. Silver (2010)

finds that measures of trade, per capita income, and price appear to be among the mechanisms through which convergence has occurred in automobile horsepower in selected European countries. Christev and Melitz (2013) observe consumption smoothing among the EU nations in the housing industry. Two other studies (Dholakia & Talukdar, 2004; Waheeduzzaman, 2016) indicate consumption convergence between developed and developing nations. Economic integration may have indirectly contributed to the consumption growth and convergence within the developed nations.

The next section presents the models and hypotheses derived from the objectives of the study and the literature review.

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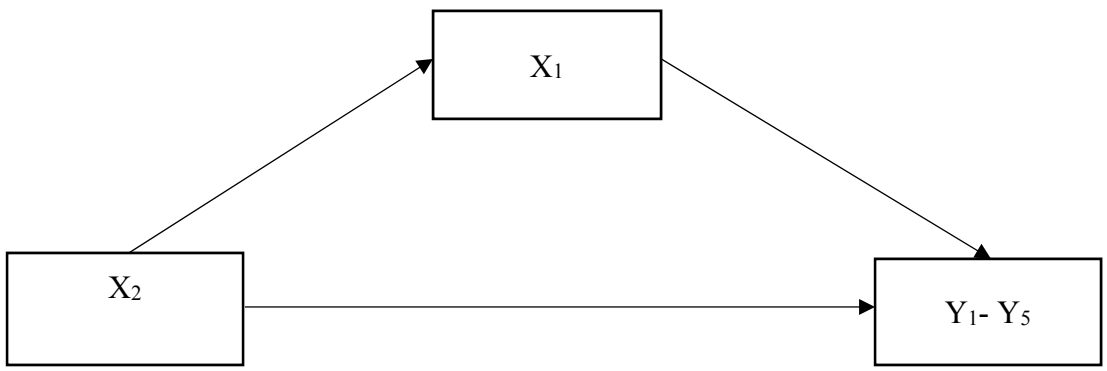
Figure 1. Effect of Economic Integration on Consumption



Y_1: Consumer Expenditure Audio-Visual, Photographic and Information-Processing Equipment
Y_2: Consumer Expenditure Recreational and Cultural Services
Y_3: Consumer Expenditure Milk Egg Cheese
Y_4: Consumer Expenditure Personal Care
Y_5: Consumer Expenditure
X_1: Per capita income
X_2: Level of economic integration

MODEL AND HYPOTHESES

The literature review indicates that consumption growth in the sampled trade blocs has been possible because of the level of integration and the rise in income. As stated, level of integration favors consumption growth "directly" and "through income." The dynamic effect of economic integration is reflected in the rise of income in the bloc; income poses to be a mediating variable. This relationship is presented in Figure 1. The two equations that depict the relationship are given below.

$$Y_i = \beta_2 X_2 + e_1$$
$$Y_i = \beta_1 X_1 + \beta_2 X_2 + e_2$$

Where,

Y_i = Consumption in country i
X_1 = Per capita income
X_2 = Level of integration

The two hypotheses associated with the above equations are as follows. Details are presented in the findings section.

H1: The level of integration has a positive direct effect on consumption.

H2: The level of integration has a positive indirect effect on consumption through a mediating variable income.

In addition to the above, we also determine the effect of integration on consumption convergence within each regional group. The leveling effect within the regional bloc over time could be given by a decrease in the difference in consumption from the mean (dispersion) within a bloc. The following model depicts the relationship.

$$\Delta Y_i = \beta_1 X_1 + \beta_2 X_2 + e_2$$

Where,

$\Delta Y_i = Y_i - Y_\mu$, Change in consumption in a country with respect to a group mean

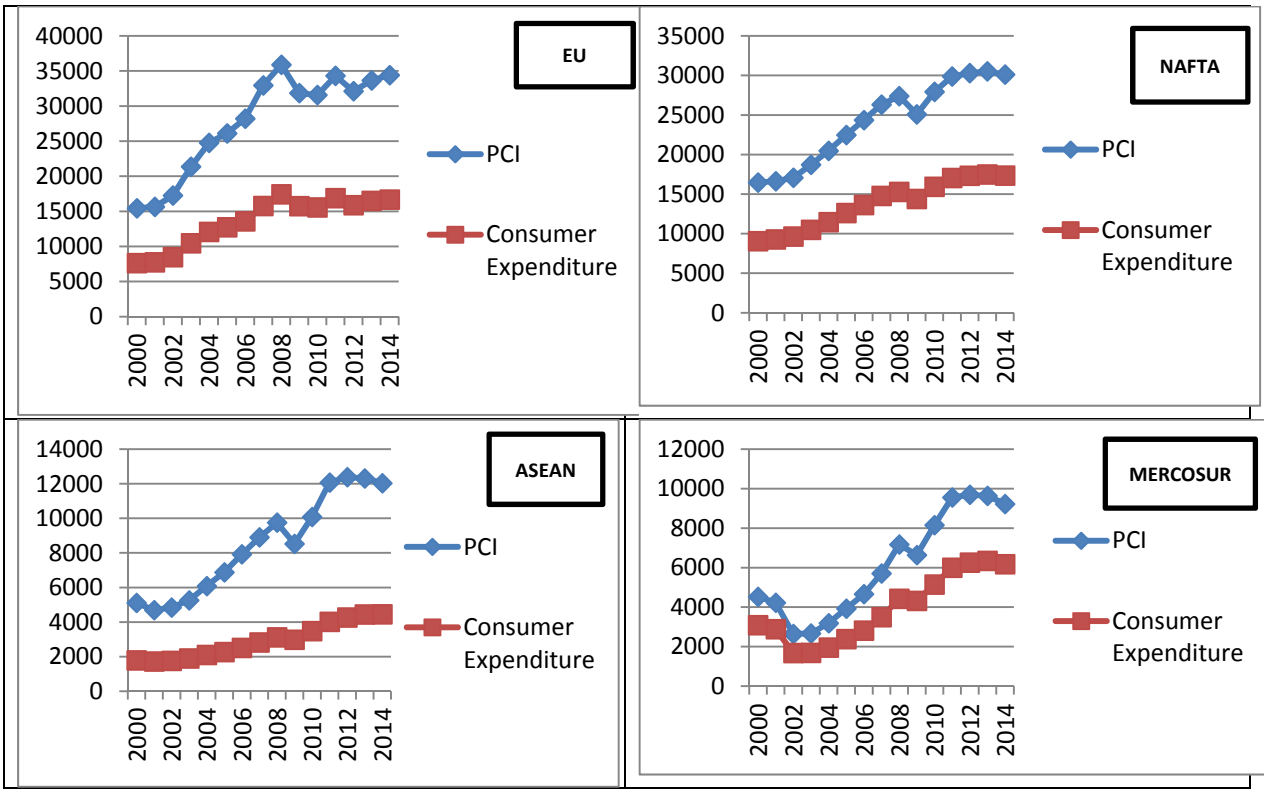
X_1 = Per capita income

X_2 = Discrete interval of time in years

The specific hypothesis tested is as follows.

H3: As income increases, the difference in consumption within a regional bloc decreases over time.

Figure 2. Per Capita Income and Expenditure Growth



DATA ANALYSIS

Consumption is given by five different types of consumer expenditures. Expenditure on audio-visual, photographic, and information-processing equipment (Y_1) and expenditure on recreational and cultural services (Y_2) fall in the category of more affluent consumption (*luxury*). Expenditure on milk, egg, and cheese (Y_3) and expenditure on personal care (Y_4) indicate our everyday consumption (*necessity*). Total consumer expenditure (Y_5) indicates our overall expenditure in consumption in a given year. Change in consumption ($\Delta Y_i = Y_i - Y_\mu$) is given by the absolute values of dispersion around the mean of the group. Per capita income and expenditure data were used in the analysis.

The stage of integration (see discussion on "Integration Efforts and Levels" in literature review section) determines the level of integration in a regional bloc. A five-point score is used for the purpose. Being at the highest level, the EU received 5 points. NAFTA is a free trade area and not a customs union or a common market. It received 4 points. Both MERCOSUR and ASEAN are still regional cooperation groups. They are yet to become a free trade area, customs union, or common market. Both received 3 points for the level on integration.

All countries in each regional group/bloc were included in the sample. The EU has twenty-eight countries. The United Kingdom is included in the EU because it was a member during the period, 2000-2014. Three countries in NAFTA, six in MERCOSUR, and ten in ASEAN constitute the sample. Not all countries had data for all variables for the sampled years. No effort was taken to interpolate any missing data.

As mentioned before, data for income and all consumption variables were collected from the Global Market Information Database, Euromonitor. Income and consumption data are subject to exchange rate fluctuations. Year-to-year exchange rate was used to convert the data from local currency.

The researcher ran the PROC UNIVARIATE procedure in SAS to understand the nature of distribution for all variables. The mean, standard deviation, skewness, and kurtosis were checked. Normality of the distribution was tested with the help of the Shapiro-Wilk and Kolmogorov-Smirnov tests. All variables passed the normality test. The regressions were run with the PROC REG procedure in SAS. SAS runs standardized data by default. The Sobel test was used to determine the mediating influence of income on consumption.

STUDY FINDINGS

In this section, the findings of the study are discussed and the results of the regression models and hypotheses are presented. Absence of comparable studies prohibit us from providing a "discussion section" commonly seen in studies like this. Empirical findings of the study are discussed below.

The purpose of the study was to examine the effect of economic integration on consumption. To attain that, we need to understand the basic structure of the data—the foundation of our analysis. Data for all consumer expenditures and per capita income for 2000 (starting year of our analysis) and 2014 (closing year of our analysis) and their average yearly growth are presented in Table 1.

All consumer expenditures indicate high growth in all four regions of the study. Interestingly, ASEAN members show the highest yearly average growth in all consumption categories. Their per capita income is growing by 9% per year. In 15 years, income grew from a 5K to 12K level, showing impressive growth. Overall economic growth in the region, international trade, population increase, urbanization, and the rise of the middle class in Asia could be attributed to such growth. The level of integration may have played some role, though its exact effect is difficult to determine.

The EU follows ASEAN in terms of growth. Their per capita income and total expenditure grew by about 8% and doubled in 15 years. We note similar growth rates in other consumer expenditure categories. MERCOSUR members' per capita income and expenditure grew by about 7%; it also nearly doubled. NAFTA shows the highest per capita income and highest per capita consumption; however, their growth rate is relatively small, nearly 5%. All regions have enjoyed substantive economic growth during the period of our study—we observe a dynamic effect of integration here. We do not observe any definitive

Table 1. Yearly Average of Variables

Group	Variable - Label	2000	2014	Yearly average growth (%)
EU	Y_1- Per capita Consumer Expenditure Audio-Visual, Photographic and Information Processing Equipment	139.33	220.6	3.9
	Y_2 - Per capita Consumer Expenditure Recreational and Cultural Services	245.44	552.8	8.3
	Y_3 - Per capita Consumer Expenditure Milk Egg Cheese	158.97	358.8	8.4
	Y_4 - Per capita Consumer Expenditure Personal Care	178.52	425.7	9.2
	Y_5 - Per capita Consumer Expenditure	7648.55	16683.6	7.9
	X_1 - Per capita income	15450.2	34411.3	8.2
	X_2 - Level of economic integration	5	5	5
NAFTA	Y_1- Per capita Consumer Expenditure Audio-Visual, Photographic and Information Processing Equipment	333.62	503.8	3.4
	Y_2 - Per capita Consumer Expenditure Recreational and Cultural Services	391.32	680.9	4.9
	Y_3 - Per capita Consumer Expenditure Milk Egg Cheese	160.28	291.1	5.4
	Y_4 - Per capita Consumer Expenditure Personal Care	269.99	478.3	5.1
	Y_5 - Per capita Consumer Expenditure	13573.98	23539.0	4.9
	X_1 - Per capita income	22462.2	38521.6	4.8
	X_2 - Level of economic integration	4	4	4
Mercosur	Y_1- Per capita Consumer Expenditure Audio-Visual, Photographic and Information Processing Equipment	38.61	54.5	2.7
	Y_2 - Per capita Consumer Expenditure Recreational and Cultural Services	68.33	105.3	3.6
	Y_3 - Per capita Consumer Expenditure Milk Egg Cheese	127.11	217.1	4.7
	Y_4 - Per capita Consumer Expenditure Personal Care	87.54	217.0	9.9
	Y_5 - Per capita Consumer Expenditure	3094.54	6176.4	6.6
	X_1 - Per capita income	4529.4	9227.4	6.9
	X_2 - Level of economic integration	3	3	3
ASEAN	Y_1- Per capita Consumer Expenditure Audio-Visual, Photographic and Information Processing Equipment	34.63	78.9	8.5
	Y_2 - Per capita Consumer Expenditure Recreational and Cultural Services	70.04	218.1	14.1
	Y_3 - Per capita Consumer Expenditure Milk Egg Cheese	30.56	84.0	11.7
	Y_4 - Per capita Consumer Expenditure Personal Care	95.07	241.2	10.2
	Y_5 - Per capita Consumer Expenditure	1791.2	4454.9	9.9
	X_1 - Per capita income	5110.3	12038.5	9.0
	X_2 - Level of economic integration	3	3	3

difference in consumption patterns between luxury consumption (audio-visual, photographic, and information-processing equipment; and recreational and cultural services) and necessities (milk, egg and cheese; and, personal care) in our findings.

Effect on Consumption

All univariate regressions with income and level of economic integration are valid (see F-values in Table 2). As expected, income is the primary driver of all types of consumer expenditures. The high R-square values (0.54-0.94) indicate that. Every dollar increase in per capita income results in a fifty-cent increase in consumer expenditure. About $100-increase in income could result in a one-dollar increase in consumption in most consumption categories.

Univariate regressions of the level of integration with consumption show interesting results. All models are valid (see F-values). R-square values range from 0.11-0.41, indicating a reasonable effect of integration on consumption. An increase by a level (e.g., from regional cooperation to a free trade area, or, from a free trade area to a common market) could result in an increase of $4600 in per capita consumer expenditure. The range of per capita expenditure in various consumption categories is $80-$168 for a unit increase in the level of integration. A higher level of integration results in a higher level of consumption. Findings presented in Table 2 support our H1 which states, "The level of integration has a positive direct effect on consumption."

Mediating Influence of Income

The indirect relationship of the level of integration on consumption is via income. Presumably, economic integration positively contributes to economic growth that results higher income for the citizens within a bloc (dynamic effect of integration), and higher income induces higher consumption. Income acts as a mediating variable between level of integration and consumption. Some mediating influence of income can be observed when we compare the univariate and bivariate regressions. In the bivariate models, we observe a marginal decrease in the β-coefficients of income and a reasonable decrease in the level of integration.

Interestingly, in the consumer expenditure on the audio-visual, photographic, and information-processing equipment model, the level of integration did not come out to be significant. And for consumption on personal care, it is significant, but the direction of influence is negative. This is not what we expected. We conducted the Sobel test to determine the mediating influence of income. The Z-scores range from 11.29 to 13.43, much larger than 1.96, confirming the presence of mediating influence at α=0.05 level. The direction of influence of income is positive in all consumption models. However, level of integration shows a positive influence in three out of five models. Given this, H2, "The level of integration has a positive indirect effect on consumption through a mediating variable income," is partially supported.

Table 2. Consumption Growth Model-Univariate

Dependent Variable	F-Value	R-Square	Intercept	Income	Integration
Y_1- Per capita Consumer Expenditure Audio-Visual, Photographic and Information Processing Equipment	1618.01**	0.75	-25.05**	0.01034**	
Y_2 - Per capita Consumer Expenditure Recreational and Cultural Services	9362.47**	0.94	-28.72**	0.01845**	

Y_3 - Per capita Consumer Expenditure Milk Egg Cheese	644.7**	0.54	102.06**	0.00587**	
Y_4 - Per capita Consumer Expenditure Personal Care	3107.75**	0.85	39.10**	0.01147**	
Y_5 - Per capita Consumer Expenditure	9063.97**	0.94	1024.91**	0.49811**	
Y_1- Per capita Consumer Expenditure Audio-Visual, Photographic and Information Processing Equipment	78.42**	0.12	-154.72**		80.02**
Y_2 - Per capita Consumer Expenditure Recreational and Cultural Services	153.06**	0.22	-367.40**		167.60**
Y_3 - Per capita Consumer Expenditure Milk Egg Cheese	381.59**	0.41	-194.18**		96.91**
Y_4 - Per capita Consumer Expenditure Personal Care	71.27**	0.11	-65.70		79.72**
Y_5 - Per capita Consumer Expenditure	159.41**	0.22	-8449.36**		4601.25**

Table 3. Bivariate Regressions-Consumption Growth with Income Growth

Dependent Variable	Sobel Value	F-Value	R-Square	Intercept	Income	Integration
Y_1- Per capita Consumer Expenditure Audio-Visual, Photographic and Information Processing Equipment		812.54**	0.75	8.20	0.01054**	-8.67
Y_2 - Per capita Consumer Expenditure Recreational and Cultural Services	13.43	4807.2**	0.95	-87.87**	0.01809**	15.43**
Y_3 - Per capita Consumer Expenditure Milk Egg Cheese	11.29	537.2**	0.66	-124.90**	0.00448**	59.19**
Y_4 - Per capita Consumer Expenditure Personal Care	13.18	1630.18**	0.86	119.04**	0.01196**	-20.85**
Y_5 - Per capita Consumer Expenditure	13.43	4716.8**	0.94	-937.41**	0.48613**	511.75**

Existence of Consumption Convergence

It has been argued that economic integration can have a leveling effect. Countries within a regional group are likely to catch up with each other in terms economic growth. This should result in some sort of regional *consumption convergence*—the change in consumption in a country with respect to a group mean ($\Delta Y_i = Y_i - Y_\mu$) decreases over time; a regression towards the mean is observed.

Regression results are given in Table 4. The F-Values indicate that all models are significant. The large R-Square values indicate bthat both time and income are good explanatory variables. The β-coefficients of time for all but one model are negative and significant. This is exactly what we expected, a decrease in the difference in country level consumption with respect to time. Income continues to have a positive and significant effect on consumption. We can fairly say that the models support our H3: "As income increases, the difference in

consumption within a regional bloc decreases over time."

However, the rate of convergence among different categories within the regions varies. In general, EU and NAFTA members are catching up faster than the other two regional groups in most consumption categories. Again, this supports our previous contention that level of integration is favoring consumption convergence.

Table 4. Consumption Convergence with Income Growth

Group	Dependent Variable	F-Value	R-Square	Intercept	Time	Income
EU	ΔY_1- Per capita Consumer Expenditure Audio-Visual, Photographic and Information Processing Equipment	637.1**	0.79	-148.37**	-13.22**	0.01014**
	ΔY_2 - Per capita Consumer Expenditure Recreational and Cultural Services	1294.6**	0.88	-255.36**	-22.66**	0.01738**
	ΔY_3 - Per capita Consumer Expenditure Milk Egg Cheese	123.6**	0.42	-61.21**	-5.34**	0.00412**
	ΔY_4 - Per capita Consumer Expenditure Personal Care	514.5**	0.75	-154.02**	-12.59**	0.00936**
	ΔY_5 - Per capita Consumer Expenditure	1681.1**	0.91	-6391.89**	-577.04**	0.44332**
NAFTA	ΔY_1- Per capita Consumer Expenditure Audio-Visual, Photographic and Information Processing Equipment	47.61**	0.69	-352.05**	-21.92**	0.01683**
	ΔY_2 - Per capita Consumer Expenditure Recreational and Cultural Services	229.38**	0.92	-425.54**	-26.49**	0.02034**
	ΔY_3 - Per capita Consumer Expenditure Milk Egg Cheese	6.27**	0.23	-28.01*	-1.74	0.00134**
	ΔY_4 - Per capita Consumer Expenditure Personal Care	1541.26**	0.99	-302.30**	-18.82**	0.01445**
	ΔY_5 - Per capita Consumer Expenditure	359.27**	0.94	-12529**	-779.98**	0.59899**
MERCOSUR	ΔY_1- Per capita Consumer Expenditure Audio-Visual, Photographic and Information Processing Equipment	38.9**	0.52	-11.58**	-3.35**	0.00562**
	ΔY_2 - Per capita Consumer Expenditure Recreational and Cultural Services	45.7**	0.56	-26.39**	-7.64**	0.0128**
	ΔY_3 - Per capita Consumer Expenditure Milk Egg Cheese	38.8**	0.52	-27.44**	-7.95**	0.01332**
	ΔY_4 - Per capita Consumer Expenditure Personal Care	77.3**	0.68	-42.67**	-12.36**	0.0207**
	ΔY_5 - Per capita Consumer Expenditure	224.01**	0.86	-1049.82**	-323.57**	0.59838**
ASEAN	ΔY_1- Per capita Consumer Expenditure Audio-Visual, Photographic and Information Processing Equipment	889.5**	0.95	-15.49**	-3.32**	0.00469**
	ΔY_2 - Per capita Consumer Expenditure Recreational and Cultural Services	1037.1**	0.96	-54.33**	-11.65**	0.01647**
	ΔY_3 - Per capita Consumer Expenditure Milk Egg Cheese	270.3**	0.86	-7.58**	-1.49**	0.0019**
	ΔY_4 - Per capita Consumer Expenditure Personal Care	995**	0.96	-50.52**	-11.42**	0.01785**
	ΔY_5 - Per capita Consumer Expenditure	4975.6**	0.99	-782.88**	-179.70**	0.35899**

In terms of per capita consumer expenditure, NAFTA nations are catching by $780 per year. For the EU it is $577. ASEAN shows the lowest convergence with $180 per year. No definitive pattern of consumption convergence is observed between luxury goods and necessities.

CONCLUSIONS

The study investigated the effect of economic integration on consumption in four regional integration groups: EU, NAFTA, MERCOSUR, and ASEAN during 2000-2014. The effect of economic integration was examined on "consumption growth" and "consumption convergence." Both direct and indirect effect was investigated.

Findings indicate that economic integration favors consumption growth directly. It also favors consumption growth indirectly via income. Presence of income as a mediation variable, *a dynamic effect of integration*, is a unique contribution of the study. The findings support pro-integration economic and political ideology. Regional economic integration, as a second best option, is still a good initiative for the citizens of the blocs. Brexit should not dampen the efforts of the integration followers. We could even take proactive measures to accelerate the catching-up process.

A notable limitation of the study is that it uses aggregate data at a macro level. Also, the consumption categories are very broad. Estimations based on such data can produce less generalizable results. Industry specific micro level data could give us a better understanding of the phenomenon.

From the very start, the goal of the study was limited to two independent variables, income and level of integration. We did not include many other variables that could have possible effects on consumption. More variables, both at macro and micro levels, could provide better explanation. Our models do not include the influence of cultural variables explaining consumption. That would have enriched our findings.

Overall, the study has been able to advance our knowledge on the effect of economic integration on consumption. We hope it will be useful to academics, practitioners, and policy planners across the globe.

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South Africa's FDI Performance: Evaluation and Policy Recommendations

Jay Van Wky
Anil K. Lal
Sang-Heui Lee

ABSTRACT. South Africa is an underperformer in attracting FDI when compared to peer countries such as BRICS or Emerging Markets. The country's laggard status is confirmed when controlling for various indicators such as total FDI inflows, FDI as a percentage of GDP, and attraction/confidence versus actual investment. The determinants of FDI indicate that South Africa is underperforming in attracting market-seeking, efficiency-seeking, and asset-seeking investors. In BRICS, FDI inflows are determined by high economic growth rates, often despite the poor quality of the institutional environment. The contradictory reality of low economic growth, despite relatively good quality institutions in South Africa, has determined its poor FDI performance. Analysis is predicated upon data from country rankings and international organizations. Policy recommendations are proposed to governmental policy makers. Recommendations are suggested in order to stimulate economic growth and, in turn, to attract more foreign investments, particularly for market and efficiency-seeking investors.

KEYWORDS. BRICS, FDI Performance, Institutional Economics, Investment Policy, South Africa, Strategic Intent.

INTRODUCTION

The importance of foreign direct investment (FDI) for the economic growth of a country is well documented. FDI occurs when a company invests directly in facilities, or produces or markets a product in a foreign country. FDI has taken place when a firm takes at least 10% ownership in a foreign company. Once a firm undertakes FDI, it becomes a multinational enterprise (Hill, 2014). FDI inflows are consistently strong determinants of economic growth in host countries (Chakrabarti, 2001; Lipsey, 2002; Love & Lage-Hidalgo, 2000). In many cases, FDI and economic growth reinforce one another (Lal & Van Wyk, 2012; Qi L, 2007). Over time, FDI also has a positive spillover effect on a host country by creating employment opportunities, generating export income, increasing productivity, transferring technology and skills, and generating tax revenue (Buckley et al., 2007; De Backer & Sleuwaegen, 2003; Spencer, 2008; Zhang et al.,

Jay van Wyk, Ph.D., is a Professor of Management; Anil K. Lal, Ph.D., is a Professor of Economics; and Sang-Heui Lee, Ph.D., is an Associate Professor of Management at Kelce College of Business of Pittsburg State University, Kansas, USA

Address correspondence to Dr. Jay van Wyk, jvanwyk@pittstate.edu. This article is dedicated to Dr. Gerrit Olivier, University of Pretoria, South Africa, on his 80th birthday.

2010). In particular, South Africa's (SA) economic development has benefitted considerably from FDI inflows. With the discovery of gold and diamonds in the 19th century, resource-seeking investments flowed into SA. The subsequent economic growth and re-investment of mining profits spurred the growth of manufacturing, and financial and business services. By the early 1970s, the SA economy was well diversified with 40% of FDI stock in manufacturing, 25% in financial and business services, and 15% in mining. However, SA's domestic policy of apartheid and the rise of widespread resistance led to increased international isolation. Such political instability caused a severe contraction in FDI. For the periods 1977-1980 and 1985-1990, FDI as a percentage of GDP was negative. The introduction of economic sanctions forced large scale disinvestment by multinational enterprises (MNEs). By the early 1990s, 225 US companies and 20% of UK companies had left SA (Gelb & Black, 2004). Disinvestment contributed to economic decline in SA and also served as an important impetus for the eventual negotiated settlement. By the end of apartheid and the establishment of a democratic SA, the country was in dire need of foreign investment since international isolation had severely depleted investment capital.

The aim of this paper is to examine whether SA attracts FDI in accordance with its potential as an expanding economy. FDI attractiveness is viewed from the perspective of MNEs. To capitalize on investment opportunities in foreign markets, MNEs strive to determine an optimal location for FDI. The location decision ("where") of FDI means that, in a competitive global economy, MNEs have the flexibility to choose between appropriate host countries. A comparative approach is utilized to determine whether SA is attracting FDI commensurate to its peer countries. It is argued that BRICS (Brazil, Russia, Indonesia, China, and South Africa) is the most suitable peer reference point. A broader comparison is also made to Emerging Markets (EMs). Accordingly, the paper is organized in three parts. Part I will analyze SA's FDI performance relative to peer reference countries. The main question addressed is whether FDI flows to SA are a reflection of the country's potential, i.e., is SA a leader or a laggard in attracting foreign investment? Part II will explain the determinants of FDI flows to SA, i.e., what are the country's strengths and weaknesses as an investment destination? Both institutional and economic determinants of FDI will be investigated. Part III will offer policy recommendations to improve FDI inflows.

SOUTH AFRICA'S FDI PERFORMANCE SINCE 1994

Anecdotal evidence suggests that SA, since adopting democracy, may be an underperformer in attracting FDI. In 2008, Finance Minister Manual acknowledged that SA required higher levels of foreign investment to grow the country's economy. In 2011, Finance Minister Gordhan admitted that the government might not have done enough to promote FDI (National Treasury, 2008; Wentzel & Steyn, 2004). According to Gelb and Black (2014), the SA government pays little attention in official statements to the importance of FDI for the economy. They also judged the country's FDI performance disappointing in quantitative terms. In 2002, average FDI inflows into SA as a percentage of GDP per capita were 1.4%. That compares unfavorably with the 3.5%, for a similar ratio, in the developing countries as a whole. Inferences about SA's FDI performance based on a single year's data may not be prudent, but it serves as a justification for more comprehensive investigation.

South Africa and BRICS

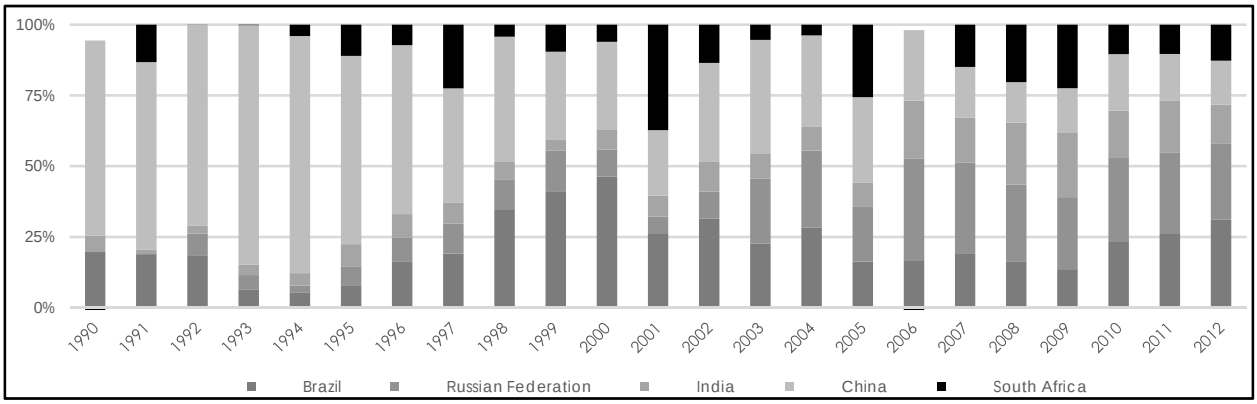
In 2001, Jim O'Neill, an economist with Goldman Sachs, coined the term BRIC to define the flagship nations of the emerging economies—Brazil, Russia, India and China. The invitation was influenced, in no small measure,

by the Zuma Government's desire to pursue an association with BRIC (*The Economic Times*, 2010).

BRICS is a relevant international grouping which represents 25% of world GDP, more than 40% of world population, and about 30% of the world's land mass. This grouping of countries indicates a shift away from the global power of the G7 and the Bretton Woods system that dominated world economics since the Second World War. The financial crisis of 2008 particularly provided impetus to BRICS's role as a global player. Intra-trade among BRICS members reached $400bn in 2015, up from $28bn in 2002. Intra-trade is 20% of BRICS's total trade. BRICS's trade with Africa reached $340bn in 2012, which represented a tenfold increase within a decade (Phat, 2012; Machado et al., 2015; Przygoda, 2015; Prabhakar, 2011; *The Mercury*, 2013; *The Citizen*, 2011; *China Daily*, 2013; *Daily Dispatch*, 2015; *Pretoria News*, 2015).

According to Oehler-Sincai (2011) and Labes (2014), the term BRICS is no longer merely a catchphrase coined around trade and international relations. BRICS is a reality and exists as an international foreign policy actor. Keukeleire and Hooijmaaijers (2013) describe BRICS as a power alliance in international political economic matters. Unay (2013) regards BRICS as an emerging global actor engaged in complex forms of interdependence with established global actors within the international system. An emerging literature in international business and economics focuses on BRICS as an analytical category related to topics such as FDI, economic development, innovation, and global governance (Labes, 2014; Jadhav, 2012; Sunny, 2015; Hou, 2014; Fadiran, 2014). Therefore, a comparison with BRICS will demonstrate whether SA is competitive in attracting FDI.

Figure 1. FDI as a % of GDP in BRICS



Source: UNCTAD (United Nations Conference on Trade and Development)

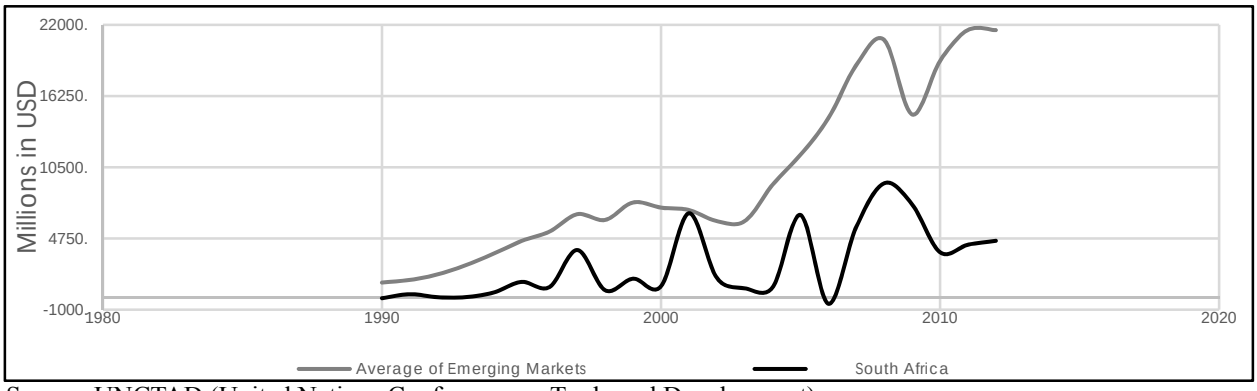
The SA alliance with BRICS reignites old themes of international political economy. South-South collaboration is seen as a policy to reduce traditional Western economic influence. Larger investments in SA and Africa by BRICS fuel the "gateway to Africa" ambition of the SA government to play a greater leadership role on the Africa continent, and for China, India, and Brazil to secure access to markets and resources in Africa (Kahn, 2011; Phat, 2012). In contrast, and based on GDP figures for 2013, the respective economies of Brazil, Russia, India and China are much larger than the SA economy, e.g., the Chinese economy is 15 times, the Russian economy 10 times, the Brazilian economy 8 times, and the Indian economy 3.5 times bigger than the SA economy (World Bank, 2015). In Figure 1, this marked disparity in size is taken into account as FDI as a percentage of GDP is compared to

BRICS. While SA's FDI performance has been volatile, a review of FDI data confirm that SA is a laggard, compared to BRICS, in attracting foreign investments.

South Africa and Emerging Markets

South Africa's FDI performance is also lagging among Emerging Markets. Since BRICS is a subset of EMs, a comparison of SA's FDI performance with this group provides a supportive dimension to the primary BRIC-SA comparison. EMs are countries that are in a transitional phase from developing to developed countries due to rapid economic growth and industrialization. They are in the process of institutional and economic reform in order to increase integration into the world economy. Various classifications, using different indicators, have included SA as an EM, including FTSE, MSCI, S&P, and Grant Thornton (Cavusgil et al., 2013).

Figure 2. FDI Average Inflows for Emerging Markets



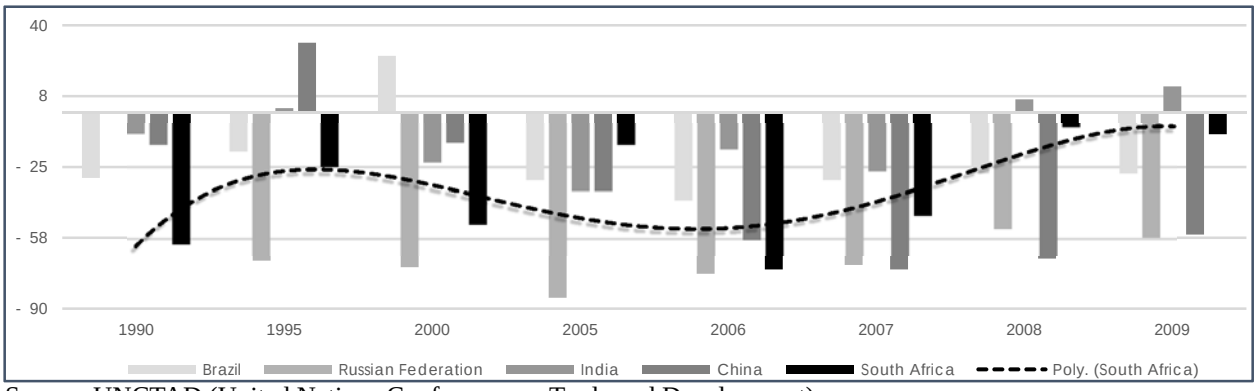
Source: UNCTAD (United Nations Conference on Trade and Development)

In Figure 2, SA's FDI performance (FDI inflows) is compared to 26 EMs. The trend line for EMs is the average per five year period. The findings clearly confirm that SA is an underperformer in attracting foreign investments vis-à-vis its peers within EMs. Also troublesome is that the performance gap between EMs and SA is widening. As argued in the next section, MNEs have choices regarding host countries for their investments. Potential host countries, such as SA, are in fierce competition against other EMs to create a business environment conducive to attracting FDI. Continued improvement is vital in staying ahead in this extremely competitive race.

Due to the transitional nature of EMs, a gap may still exist between FDI performance and potential. The discussion so far has focused on performance. Investors often take a long-term view of EMs. EMs are attractive for MNEs seeking efficiency (lower production costs), new markets for consumer goods with growth in middle class customers, and access to commodities and other assets. However, transaction cost may be high with the persistence of institutional weaknesses and economic rigidities. In a competitive global economy, MNEs seek first mover advantage to preempt competitors in the pursuit of future profitability. The UNCTAD FDI Attraction Index measures the success in attracting FDI (performance). The FDI Potential Index measures an economy's potential based upon a number of indicators related to GDP growth, various measures of imports and exports, FDI stock, country risk, communication infrastructure, tertiary education, energy use and R&D expenditure. Performance refers to the actual inflow of FDI into a host country (UNCTAD, *World Investment Report*, 2012). Figures 3 and 4 examine the gap between performance and potential for BRICS and EMs.

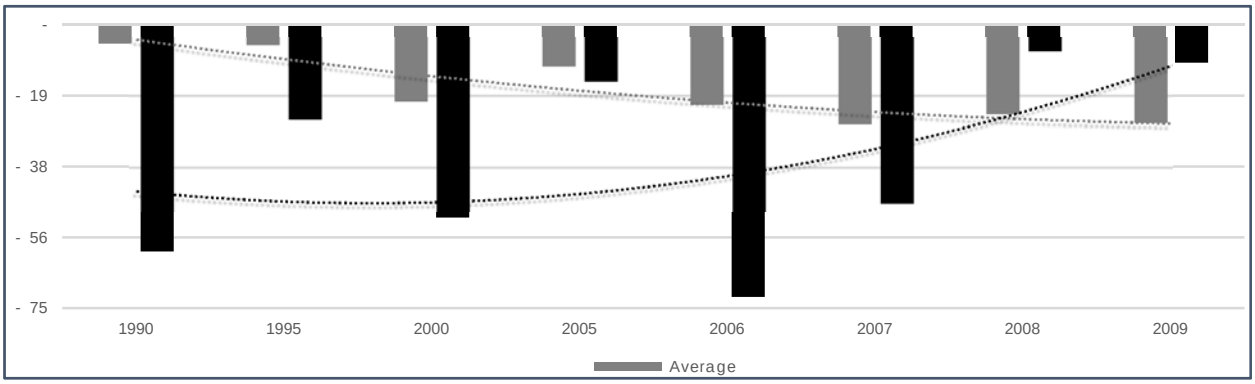
The performance of all BRICS did not meet expectations. However, the trend line for SA shows that the country is closing the performance-potential gap at a faster pace than other BRICS (Fig. 3). When compared with EMs, the performance-potential trend line for SA is even more encouraging. The average trend for EMs shows a downward slope and that of SA an upward trend (Fig. 4). In another study, A. T. Kearney, a global management consulting firm, conducted a survey among investors. Respondents were asked to rank the top 25 countries in which they have confidence as investors. In 2012, SA was ranked 19th but when compared with actual FDI performance, SA ranked 23rd out of 25. SA underperformance (-4) was in line with China (-1), Indonesia (-3), and the UAE (-4) (Kearney, 2012).

Figure 3. FDI Performance and Potential in BRICS



Source: UNCTAD (United Nations Conference on Trade and Development)

Figure 4. FDI Performance and Potential in Emerging Markets



Source: UNCTAD (United Nations Conference on Trade and Development)

EXPLANATIONS OF THE MAJOR DETERMINANTS OF SOUTH AFRICA'S FDI UNDERPERFORMANCE

Although SA remains an FDI underperformer, there is considerable optimism among foreign investors that FDI inflows to the country will increase if the SA government adopts changes that will accommodate increased investment. Consulting firm Ernst & Young (2011) makes the case that SA has a very favorable business environment in Africa based on natural resources, market size, stability, and low risk profile. However, this positive view is dependent on the government's ability to improve infrastructure and to rein in labor and unrest.

A discussion of the determinants of FDI may provide insight into SA's laggard status as well as provide clues to initiatives that may make SA a more attractive FDI target country.

Which determinants explain why SA is a laggard as a recipient of FDI? Empirical findings explain which indicators are the important determinants of FDI inflows. To facilitate evaluation, two broad explanatory theories will be briefly outlined: institutional-economics and strategic intent.

Institutional-Economics

Institutional-economics, the impact of both economic and institutional factors on FDI, has emerged as a prominent theoretical framework for the explanation of FDI inflows (Grosse & Trevino, 2005; Van Wyk & Lal, 2010). Macroeconomic indicators, such as GDP (growth, size, per capita), inflation, employment and exchange rates, have been identified as determinants of FDI inflows (Froot & Stein, 1991; Grosse & Trevino, 1996; Gyapong & Karikari, 1999; Tahir & Larimo, 2004; Trevino et al., 2002). Macroeconomic factors will be more fully explained under market-seeking intent below. Similarly, institutions or "the rules of the game" have explained FDI inflows. North (1990) refers to the rules of the game that shape and bind organizational behavior in society. The quality of institutions as a determinant of FDI inflows is well supported in the literature. Institutions such as political and economic freedom, the rule of law, competitiveness, and low levels of risk and corruption are viewed as conducive to foreign investment (Bailey & Chung, 1995; Knack & Keefer, 1995; Mauro, 1995; Rumelt et al., 1991; Trevino & Mixon, 2004; Wei, 2000). However, in some instances poor institutions may not pose a barrier to investment. If opportunities for profit are very favorable, MNEs may find ways to circumvent or to mitigate institutional barriers. MNEs from authoritarian countries, mostly state-owned enterprises, may actively invest in countries with poor institutional quality. The findings of Singh (2012) show that FDI in India is motivated by opportunity and that firms circumvent poor institutions through lobbying and corruption. Chinese FDI often flows to host countries with similar high levels of corruption (Ter Braak, 2010). To return to the institutional-economic approach, both economic and institutional determinants affect FDI inflows, especially in developing countries and EMs (Faria & Mauro, 2004; Trevino & Mixon, 2004; Grosse & Trevino, 2005; Moen, 2004; Van Wyk & Lal, 2008). A central focus of the studies quoted above is that FDI decisions are influenced by an MNE's ability to reduce high transaction cost in uncertain or less familiar investment environments (Hoskisson et al., 2000; Hennart, 2010).

SA's institutional quality compares favorably with BRICS and, in some indexes, SA's institutions are superior to its peers (See Figure 5) SA's level of economic freedom, a proxy for a free market system, is the highest in BRICS. According to the Index of Economic Freedom, SA is classified as "moderately free" but the other BRICS are "mostly unfree" (Heritage Foundation, 2015). This is only a relative advantage since the SA government's intervention in the economy is substantial. The economy requires more committed structural and institutional reforms. According to the *Index of Economic Freedom* compiled by the Heritage Foundation, investment and trade with SA are hampered by pervasive corruption, rigid labor market regulation, and an inefficient regulatory framework that perpetuates high unemployment and underemployment. Investment freedom has also declined since the SA government cancelled bilateral investment treaties with Germany, Spain, and other countries in 2013 (Heritage Foundation, 2015). The political system in SA is a flawed democratic system, but still ranks higher (26) than India (39) or Brazil (45). SA is the equal of Brazil and Russia as a competitive nation, but lags behind China. The Economist

Intelligence Unit classified SA, India, and Brazil as flawed democracies. Although these countries have free and fair elections and protect civil liberties, they fall short of consolidated democracies because of the lack of transparency and efficient governance, and a political culture not always supportive of democracy (Economist Intelligence Unit, 2011).

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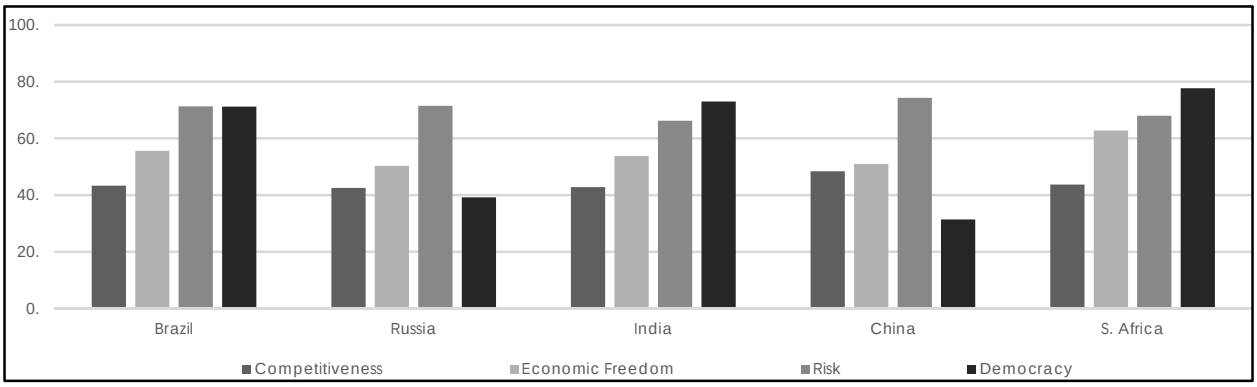
Figure 5. Institutional Quality in BRICS



Source: World Economic Forum and Heritage Foundation

SA's inadequacies in political culture and political participation stand in the way of full democratic status. Both Russia and China are classified as authoritarian systems. The nature of a country's political economy is important and signals to investors that transaction cost will be lower in countries with political stability and legitimacy, but cost may be higher in authoritarian regimes due to concerns that instability may lead to governmental intervention and rent seeking. However, risk exposure in BRICS is relatively benign for investors. The high scores in Figure 6 should be viewed counter-intuitively since high scores denote low risk and low scores indicate high risk. The risk score is a composite of political, financial, and economic risks (Political Risk Services, 2015). This is not to ignore the social dysfunctionalities that characterize SA society. Such issues may require mitigation for MNEs operating in SA, and may include crime, corruption, and health issues (HIV/AIDS) (Van Wyk & Custy, 2004; Van Wyk, 2012). A reasonable inference, however, may be made that institutional quality in SA is better than in other BRICS.

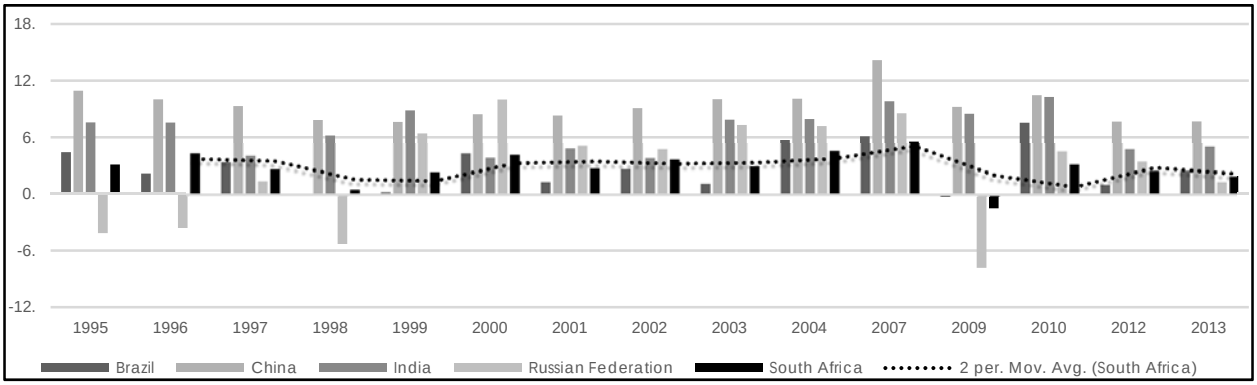
Strategic Intent

Previously the "where" choice of investors was discussed, i.e., how attractive SA is as a host of FDI in relationship to peer BRICS. Another approach to determinants of FDI is to evaluate the "how" choice of FDI type, i.e., the strategic intent of MNEs. Types of FDI were developed by John Dunning in his eclectic theory of FDI (Dunning, 1994). The strategic intent of MNEs is based on their assessment of specific location advantages of recipient countries (Dunning, 1993). Such choices, based on strategic intent, include market-seeking, resource-seeking, efficiency-seeking, and asset-seeking (Wadhwa & Reddy S, 2011). Market-seeking refers to the entrance of MNEs in foreign markets to sell goods and services. The economic aspect of the institutional-economic approach is treated as similar to market-seeking investment. Resource-seeking is motivated by access to raw materials required as inputs to the production of products. Efficiency-seeking occurs when MNEs disperse production facilities (or other value creation functions) to other countries or when production of products or components are outsourced or offshored to suppliers. Efficiency-seeking is motivated by cost

reductions that will enhance competitive advantage. Asset-seeking may take the form of asset-exploitation and asset-augmentation. Asset-exploitation refers to FDI in which a company transfers its internalized competencies to achieve competitive advantage in host markets. This strategic intent is usually associated with large MNEs from developed countries (Mathews, 2006). Asset-augmentation is the knowledge and resources that companies gain by operating in foreign markets. Since learning and "sensing" are important, such asset-seeking is the search for new innovations and products as well as human resource talents (Wadhwa & Reddy S, 2011; Okafor, 2015). Knowledge-seeking is a particularly strong motivation for MNEs from emerging markets (EMNEs) to invest in foreign markets. EMNEs strive to improve firm capabilities and become more competitive at home and abroad (Kedia et al., 2012).

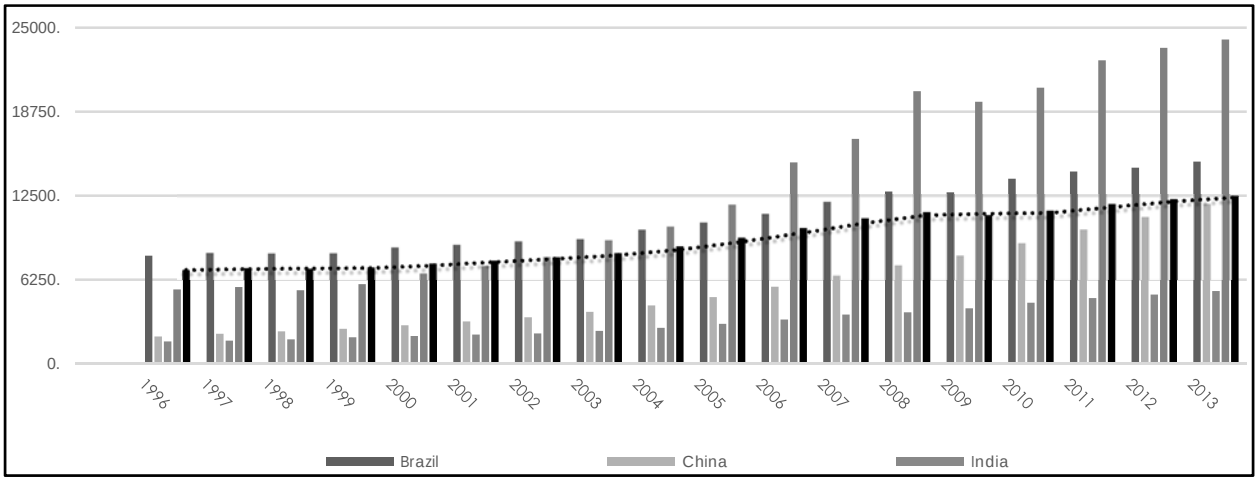
The various types of FDI may make considerable contributions to the competitiveness of host countries (Dunning, 1994). For both resource-seeking and market-seeking intent, FDI provides complementary skills such as technology, management, and organizational competence. Resource-seeking may also have a spin-off effect in industrial development and secondary processing activities.

Figure 6. GDP Growth (%) in BRICS



Source: World Bank (World Development Indicators)

Figure 7. GDP per Capita PPP in BRICS



Source: World Bank (World Development Indicators)

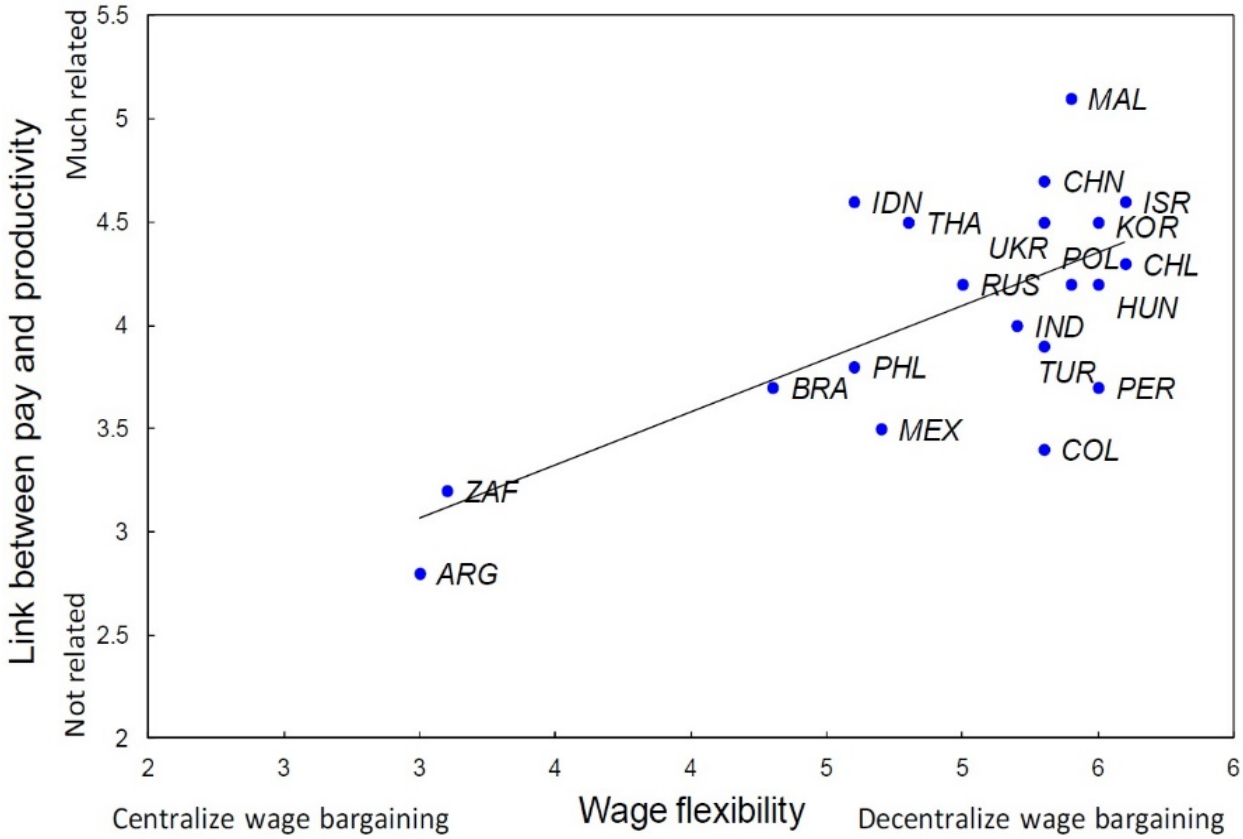
Market-seeking may provide consumers with lower prices, wider choices and better quality products. It also raises domestic consumer expectations of indigenous competitors.

Efficiency-seeking improves the international division of labor and cross-border networking, which in turn may enhance the comparative advantage of host countries. Asset-seeking provides new financial capital and complementary assets to host countries. It also stimulates local entrepreneurship and improves competition among local companies.

The market-seeking attractiveness of SA presents a mixed picture. GDP growth in SA has been anemic and only exceeded 5% per year in 2007. SA's growth rate compares poorly with the high growth rates in China and India (See Fig. 6 & Fig. 7). Although GDP per capita has grown steadily in SA, the faster growth rates in Brazil, China, and Russia make these markets more attractive for retail and consumer goods. For the period 1971-2012, real GDP per capita average annual growth for SA was only 0.6% as compared to 3.5% and 7.8% in India and China, respectively (South African Institute of Race Relations, 2014, p. 93). Although GDP performance of BRICS has decelerated recently, GDP growth data for the time period 1995 to 2013 (Fig. 6) shows almost all BRICS witnessed a higher growth rate in GDP relative to SA. In SA, personal disposable income per capita has also grown at a slower rate than real GDP per capita (South African Institute of Race Relations, 2014, p. 93). This is likely due to the fact that SA has one of the highest unemployment rates in the world. In a comparison of 35 countries, only Greece (27.25%) had a worse unemployment rate than SA (25.5%). The rates in BRICS were much lower: Brazil (4.9%), China (4.1%), India (8.8%), and Russia (4.9%) (South African Institute of Race Relations, 2014, p. 218). As stated above, the larger economies in BRICS tied to the faster growth in individual income make these markets more attractive than SA. Studies show that low economic growth in SA is an impediment to FDI inflows. According to findings of Leshore (2014), the direction of causality is one way in SA, i.e., economic growth attracts FDI. The current low levels of economic growth are responsible for SA's struggle to attract FDI. He also found that low levels of domestic savings are an obstacle to FDI. Not only will an increase in domestic savings increase economic growth, but it will also have a significant impact on attracting FDI. Other findings have established that the direction of causality in SA runs from the growth of FDI stock to the growth of real GDP. In the short term, the growth of FDI stock may lead to economic growth in SA (Yi et al., 2011).

To attract efficiency-seeking FDI, SA faces almost insurmountable obstacles related to the rigidity of the labor market and the destructive strikes perpetuated by labor unions. Figure 8 illustrates that SA (ZAF) is a clear underperformer against BRICS and other EMs when the link between wages and productivity is correlated. SA needs producers to locate manufacturing plants in SA or producers to outsource the production of components to SA suppliers. The contribution of industries such as mining and manufacturing to gross value added (GDP) has declined. In 1951, mining and manufacturing contributed 12.1% and 18.1%, respectively, to GDP. By 2013, the contributions of mining and manufacturing had declined to 9.2% and 11.6%, respectively (South African Institute of Race Relations, 2014, p. 95). Setting this finding aside, some serious barriers remain to hinder efficiency-seeking in SA. The most serious barrier involves trade unions. Despite high unemployment in SA, trade unions (insiders) have protected their members, leading to excess wage growth in sectors dominated by trade unions. Collective bargaining by labor unions has produced a closed shop system that applies to both members and non-members. At the same time, labor union insiders have actively blocked attempts to provide low wage job

Figure 8. Wage Flexibility

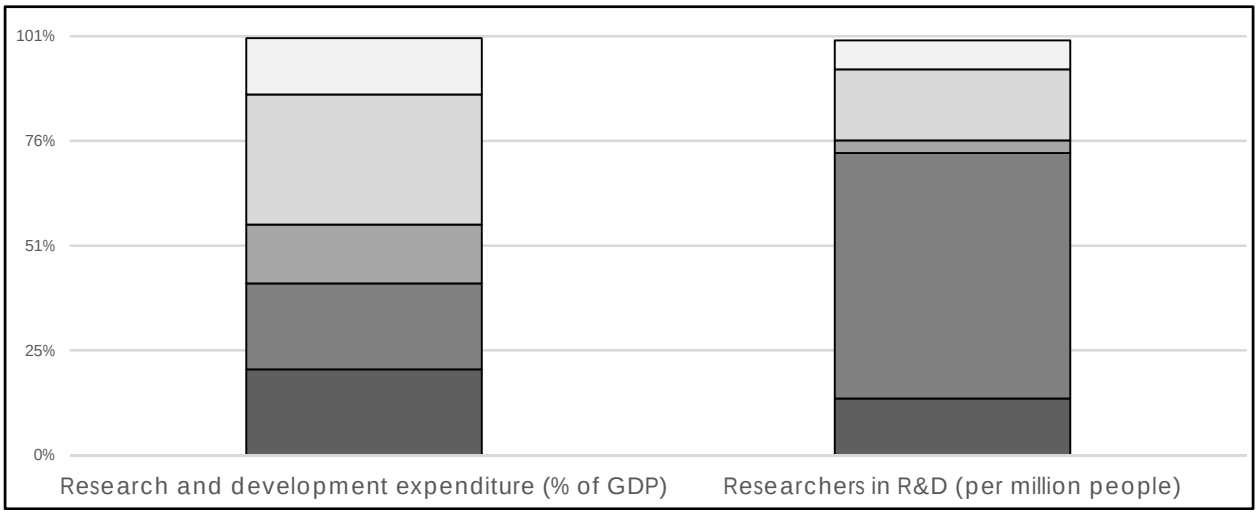


Source: Klein, N. (2012) Real Wages, Labor Productivity, and Employment Trends in South Africa: A Closer Look. WP/12/92, pp. 1-12, 2012.

opportunities to the unemployed with limited skills and opportunities (outsiders).

According to Bernstein (2014), labor brokering will create more jobs for the unskilled and unemployed workforce. Despite the abundance of low skill labor in SA, collective bargaining has created a formidable entry barrier for non-union members to enter the labor market. The system also makes wages in SA uncompetitive, vis-à-vis other host countries, for MNEs seeking manufacturing efficiency. High unemployment rates in SA indicate the availability of low skilled workers. The unemployment rate of youths (15-24 years) is 63%. The overall expanded rate of unemployment, including discouraged work-seekers, is 36%. The number of jobless people in SA has reached 8.74 million in 2015, up from 3.67 million when the ANC (African National Congress) took office in 1994. SA's current unemployment rate is much higher than its BRICS peers, e.g., Brazil and Russia (6% each), India (9%), and China (4%) (South African Institute of Race Relations, 2015a). SA's low absorption capacity has hindered the ability of local firms to benefit fully from the spillover effect of FDI. The low labor absorption rate and skills deficit are the main concerns in this regard (Kleynhans & Zwedala, 2012). The labor force absorption rate measures the proportion of the working-age population that is employed, i.e., working for pay, profit, or family gain. SA's labor absorption rate in 2014 was only 42.7% and has shrunk 6.8% since 2001 (South African Institute of Race Relations, 2014, p. 216).

Figure 9. Indicators of R&D in BRICS



Source: World Bank (World Development Indicators)

SA spends less on R&D as a percentage of GDP and has fewer researchers in R&D per million people. Human resource assets are also a concern. Although government spending on education in SA is impressive, the poor quality and performance of its educational system and the skills deficit in the country are serious concerns. As a percentage of GDP, SA's education spending of 6.5% exceeds similar spending in India (3.4%), Brazil (5.8%), Indonesia (3.6%), and the US (5.4%). As a proportion of total government spending, SA (20.6%) spends more than India (11.3%), Brazil (14.6%), Indonesia (18.1%), and the US (12.1%) (World Bank, *World Development Indicators*, 2014). Although higher education in SA is comparable to Brazil and Russia, the country lags behind China. Major concerns in SA are the quality of education, the quality of math and science education, and internet access in schools. According to the World Economic Forum (2015), China ranked 30th in the world on higher education and training, while Russia ranked 41st, Brazil 42nd, South Africa 43rd, and India 61st. SA's ranking in the world for quality of education, quality of math and science education, and internet access in schools was 122nd, 144th, and 117th, respectively.

Despite the high unemployment rate in SA, the country suffers an acute skills shortage. A number of factors have contributed to this concern. The supply of SA graduates is insufficient to meet the country's need for managers, professionals, and educators. The country is also experiencing a brain drain as many skilled professionals have emigrated to pursue better career opportunities abroad (Bernstein, 2014, p. 34). SA's regulations, a cumbersome system of permits and quotas, inhibit skilled individuals seeking to enter the country. MNEs often need the flexibility to place expatriate managers in foreign subsidiaries if qualified managers are not available in host countries. Immigration regulations are, therefore, a "catch 22" for foreign investors.

As indicated above, initial FDI inflows to SA were motivated by resource-seeking, which was based upon the abundance of minerals in the country. Minerals are still the source of large export sales. In 2013, export earnings were R81.7 billion for gold, R77.5 billion for platinum, and R96.2 billion for coal. The mining industry employed almost half a million people (South African Institute of Race Relations, 2014, p. 131, 344). For foreign investors, however, the mining industry's attractiveness has declined. Although the

mining industry still attracted 30.9% of total FDI in 2012, investments were down from 38.3% of total FDI in 2010. In 2013, SA ranked 53rd of 112 as an attractive destination for foreign investors. The mining industry in many developing countries, including Botswana, Turkey, Mexico, Namibia, Zambia, and Brazil, were more attractive than SA. This decline is largely due to labor strikes, more intrusive governmental regulations, and the decline of commodity prices due to a downturn in global demand. The ranking is based on a comprehensive survey by the Fraser Institute measuring 17 indicators of mining attractiveness (South African Institute of Race Relations, 2014, p. 379).

Infrastructure Concerns

The effective management of global supply chains, i.e., the movement of goods, components, production inputs and information across international boundaries, is a crucial element of an MNE's competitive advantage. The infrastructure of a potential host country is a pivotal consideration for foreign investors. The physical infrastructure of a country is critical for upstream logistics, i.e., moving inputs to manufacturing plants and components from suppliers to assemblers, and downstream logistics, moving finished goods to consumers. The communication network and information technology of a host country are also essential for communication with subsidiaries, suppliers, and customers.

SA's IT communications compare unfavorably with some BRICS. In terms of network and digital readiness, SA ranked 70th out of 148 countries in 2014, while Russia (50th) and China (62nd) performed better (South African Institute of Race Relations, 2014, p. 392). Subscribers to fixed broadband internet in SA lagged behind subscribers in Brazil, Russia, and China (World Bank, *World Development Indicators*, 2015)

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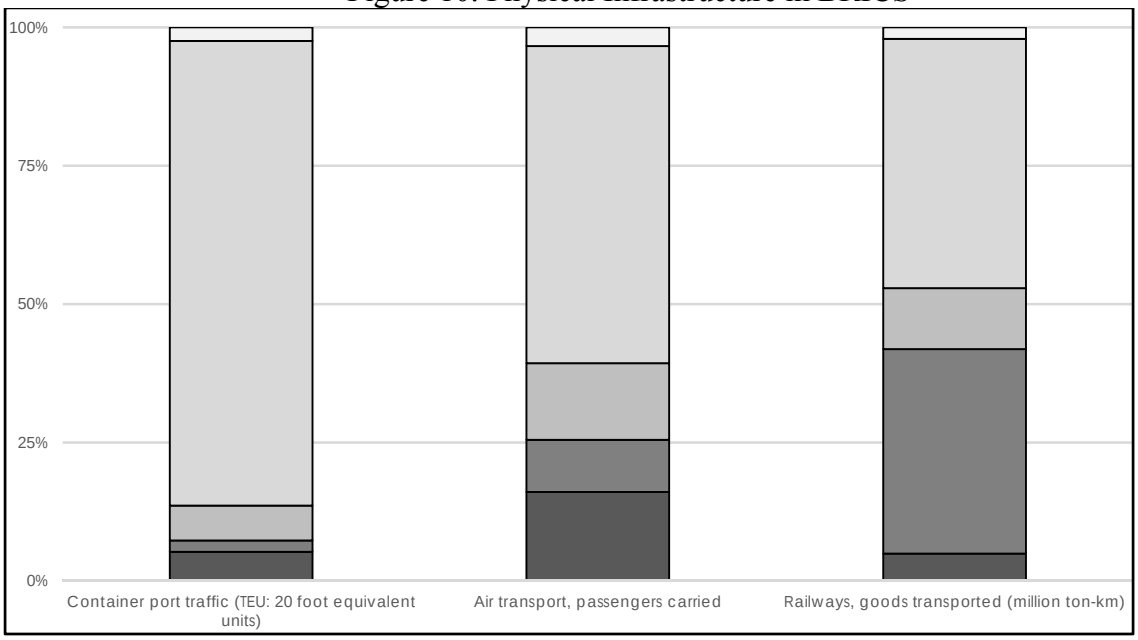
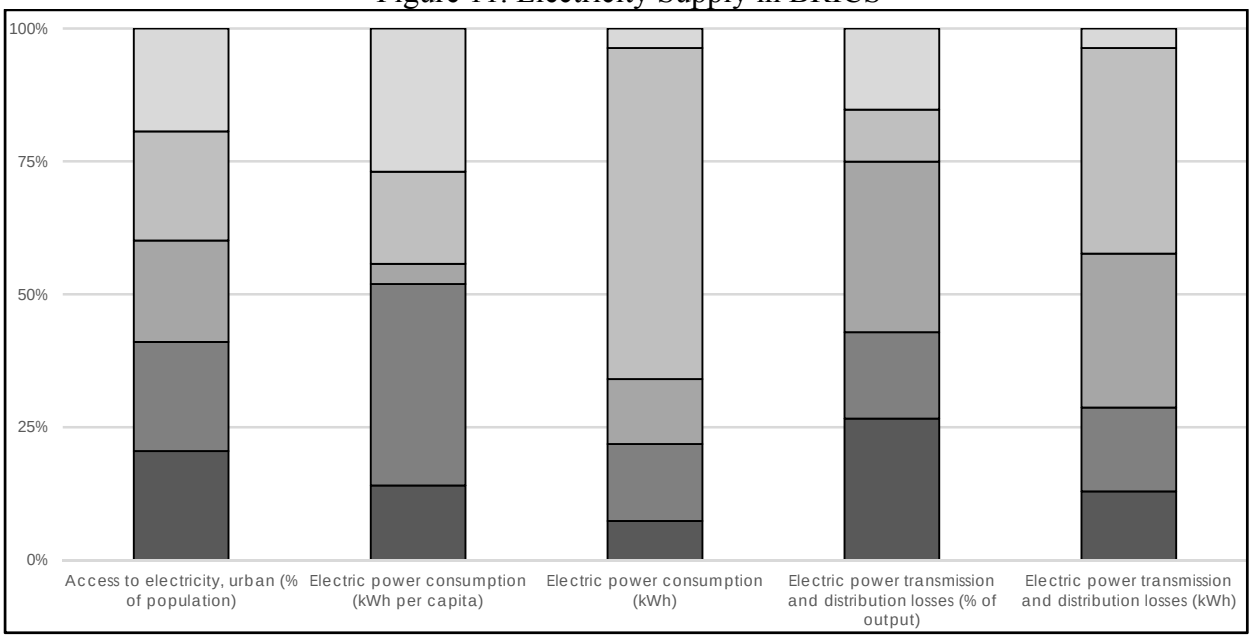
Figure 10. Physical Infrastructure in BRICS



Source: World Bank (World Development Indicators)

Figure 11. Electricity Supply in BRICS



Source: World Bank (World Development Indicators)

Since 2008, Eskom, the state-owned electricity supplier, has struggled to meet the demands of industry, particularly in the mining and manufacturing sectors. Eskom's projection that demand will only exceed supply in 2019 was patently wrong (South African Institute of Race Relations, 2014, p. 352). Energy shortages have led to blackouts, loss of production, and growing uncertainty regarding SA's ability as a supplier of commodities such as platinum. In 2015, Eskom experienced technical problems at power stations which led to escalating cuts in power supply (load-shedding), affecting industry, retail, office blocks, and the public. Business Unity SA (2015), a business association also known as BUSA, views the government's weak policies on a number of business related issues, including energy, as a major reason for poor economic growth and job creation in SA.

The problems with electricity supply have created uncertainty for investors. For foreign direct investors, a reliable electricity supply is an important requirement before assets are committed in host countries (Okafor, 2015; Bekhet & Othman, 2014). According to the Senior GM of Eskom, Andrew Etzinger, energy security will be critical over the next 30 years. "Eskom regularly received requests from larger industrial companies wanting assurances over the availability of long term power before they embarked on new projects" (*Business Day*, 2015a). The South African Chamber of Commerce warns that erratic blackouts cost businesses billions of Rand and that small businesses are especially vulnerable (*Business Day*, 2015). According to the *Wall Street Journal* (2014), power outages have already sapped more than $520 million in output at metal and engineering firms alone. Currently, Eskom has minimized load shedding, but its long-term reliability as a supplier remains uncertain. Concerns include Eskom's failure to deliver new coal-firing power stations on time; insistence that coal suppliers must meet strict BEE (Black Economic Empowerment) requirements, i.e., suppliers must have 50% plus one Black ownership; the viability of many coal suppliers under threat due to weak global prices and labor strikes for higher wages; and Eskom has only enough stockpiles for its coal-firing power stations to withstand a one-to-two-month strike (Business Day, 2015). Adding to concerns is that this issue is also

embedded in a broader issue of poor governance in SA. Therefore, from an FDI perspective uncertainty regarding electricity supply will remain an impediment to foreign investment.

POLICY RECOMMENDATIONS

Is SA capable of changing from a laggard to a leader in attracting FDI? From the discussion above, SA has emerged as a peculiar case. Unlike BRICS and EMs in general, SA's low economic growth rate inhibits commercial opportunities for MNEs. The country's economy needs to grow at a faster pace in order to gain a greater competitive advantage vis-à-vis its peers. In another interesting contrast, SA's institutional arrangements are better than those of BRICS. As argued above, opportunity is largely driven by economic growth. Even in situations in which institutions are weak, MNEs may adopt strategies to avoid institutional barriers in pursuit of economic opportunity. The dilemma for SA is that the reverse situation, weak growth within a reasonable institutional environment, will not attract sufficient FDI.

For the immediate term, the SA government should formulate and implement a viable investment policy. Most critically, the government should promote labor intensive-led growth. Since SA lacks investment capital, foreign investors could locate production facilities in SA to take advantage of the abundance of low skill labor in the country. This will require a tough political decision by the ANC government. The tripartite alliance between the ANC, trade unions, and the South African Communist Party has failed to provide jobs to the millions of unemployed in SA. Current data reveal membership of trade unions is declining. By 2013, 95.6% of labor strikes were triggered by wages (South African Institute of Race Relations, 2014, p. 414). Between 1994 and 2014, registered union membership, as a portion of total employment, decreased by 20%, and the number of registered unions decreased by 14% (South African Institute of Race Relations, 2015b). As argued above, trade unions only serve the narrow interests of the employed and are indifferent to the plight of the poor and unemployed. In a democracy, the government may appeal directly for support to the electorate in order to adopt policies to benefit the greater good. In so doing, the role of trade unions as gatekeepers of wage and job creation policies may be circumvented. According to Boitumela Sethlatswe, analyst at the South African Institute of Race Relations, trade unions were struggling to find relevance and attract membership among young workers: "Dissolution of the tripartite alliance and breaking down the influence of COSATU [Congress of South African Trade Unions] will allow for a more competitive labor environment, which will benefit not only workers but also the economy as a whole." (South African Institute of Race Relations, 2015b).

The improvement of the current Special Economic Zones (SEZ) may be another appropriate strategy to attract FDI (South African Department of Trade and Industry's *Special Economic Zones (SEZ)*, 2015). SA's SEZ include Industrial Development Zones (IDZ) located at Coega, Richards Bay, East London, Saldanha Bay, and the Dube Trade Port. The IDZ can play an important role in attracting efficiency FDI based on labor intensive production, and creating jobs for the large pool of unemployed and low-skilled workers. One of the goals of the IDZ is to attract FDI, but given SA's underperformance, new and additional initiatives should be implemented to attract more FDI.

SEZ and IDZ should be viewed as experiments in attracting more FDI. If successful, such practices may be introduced in the wider economy. Ideally, IDZ in SA should entail the following incentives for foreign investors:

1. It must be a business environment of exception, distinct from the rules in the larger economy.

2. MNEs operating in low-skill, labor-intensive industries should be targeted as investors.
3. It must be competitive against globally successful IDZ/SEZ in China, Mauritius, Costa Rica, Malaysia, and elsewhere, although on a smaller scale (Bernstein, 2014, p. 33). A good benchmark is to improve the ease of doing business in SA. For example, getting electricity requires five procedures, takes 226 days, and the cost as a percentage of income per capita is 729.5%. SA is also a poor performer in starting a business, registering property and exporting goods (World Bank, *Doing Business*, 2014).
4. The role of trade unions should be restricted to reduce strikes and stifling collective bargaining procedures, i.e., wages should be determined by the market.
5. Appropriate incentives should be provided to attract FDI. Incentives may be utilized by a host government to compensate for unfavorable investment obstacles. According to Wentzel and Steyn (2014), SA could learn much from the incentives Malaysia and Singapore provide to foreign investors.
6. The physical infrastructure, notably electricity supply, should be adequate to guarantee efficiency for producers.
7. Government should consult with the business community, locally and internationally, to create an investment friendly environment.

In evaluating the IDZ in SA, points 5 and 6 have been covered. The SEZ policy makes provision for various tax incentives and tax deductions (relief). In the SA government's Special Economic Zone Fund, subsidies have been made available for infrastructure development. Point 1 has been partially covered, but the IDZ require further expansion as desirable locations for FDI. Point 3 may require a focus on SA as a gateway location for business expansion and business services to Sub-Saharan Africa. The Saldanha Bay IDZ has already been envisioned by policy makers as the primary oil, gas, and marine repair engineering and logistics complex. This IDZ is slated to serve the needs of the upstream oil exploration industry and production service companies operating in the oil and gas fields off Sub-Saharan Africa. Noticeably, Point 4 is the critical weakness in the current IDZ policy in SA in attracting FDI. MNEs seeking efficiency by outsourcing manufacturing to SA will only invest if access to low-skilled workers is determined by globally competitive wages. Thus, wages must be based on market factors (high supply, low demand) and not the labor unions' monopoly in determining wages for non-union members. As indicated above, the relationship between the government and the business community in SA is frequently contentious. Business associations and chambers of commerce, both locally and internationally, are important stakeholders in the economic development of SA. They should play an increased advisory role in the formulation of government FDI policies.

If such SEZ environments are implemented, SA will become attractive for efficiency-seeking foreign investors. Furthermore, viable SEZ will reduce unemployment, increase the economically active workforce, and have a positive effect on income per capita and consumer spending. These factors are all favorable for market-seeking FDI. The recently enacted Special Economic Zones Act (Act No. 16 of 2014) is broad in scope, and only time will tell if it will produce the specific policies required for successful SEZ.

In the long run, labor-intensive industries will be less important as a determinant for GDP growth as wages increase and the cost of capital declines. If SA reaches this stage of development, the government should promote capital-intensive-led growth. When capital and labor are fully utilized and produce diminishing returns, the focus should shift to the development of human capital and technology, i.e., government should then encourage R&D and promote

higher education. An improvement in SA's national competitiveness will enhance the country's attractiveness for asset-seeking investors. SA needs to improve its technological readiness, innovation, and higher education. For technological readiness, expansion of IT communication users (fixed broadband internet and internet width) will enhance the country's technology absorption through FDI.

In terms of resource-seeking FDI, SA will remain an important global supplier of strategic minerals. However, the volatility of commodity prices will remain an important impediment to investments. A greater concern is that SA's reliability as a supplier is under threat due to growing political risks in the country. The Fraser Institute's annual survey of mining companies is the best barometer of SA's attractiveness to resource-seeking foreign investors. The mining industry has good standing for "best practices," quality of infrastructure, quality of geographical data, and availability of labor and skills. However, 79% of mining company executives surveyed expressed considerable concern about the long term uncertainty of mining in SA.

They viewed a number of issues as deterrents to investment in SA, notably, security (82%), labor regulations (82%), disputed land claims (78%), corruption (76%), political instability (74%), and corporate social responsibility and local purchasing requirements (70%). A prudent approach for policy makers would be to benchmark SA against other developing countries that are highly rated as attractive host countries for resource-seeking investors, particularly, Botswana, Chile, Mexico, and Turkey (Fraser Institute, 2011/12).

Other policy recommendations for SA decision-makers are to encourage greater policy certainty, to accelerate regional integration, urgently to bridge the infrastructure deficit, to foster productive partnerships with the business community, and to promote the country as one of the leading investment destinations in Africa (Ernst & Young, 2011). For example, the SA government has published many policy documents identifying the economic problems facing the country, but there has been little agreement regarding causes of the problem or policies to achieve successful growth and job creation. These policy documents include the National Development Plan (2012), Industrial Policy Plan (2010/2011), and New Growth Path (2010). Approval for Walmart's acquisition of 51% of Massmart exposed the contradictory positions of governmental departments regarding FDI: The Competition Commission approved the deal, but the Competition Tribunal, Department of Trade and Industry, and the Department of Economic Development opposed it.

Olivier (2003) accurately exposed the Mbeki Administration's SA foreign policy, known as NEPAD (New Partnership for Africa's Development), as Afrocentric, Eurosceptic, and dismissive of SA's historical economic ties with the developed world. Under the Zuma Administration, the government is embracing the BRICS association.

Although this approach is more appropriate than NEPAD for SA's integration into the world economy, it revives some of the rhetoric of North-South divisions within the global economy. SA's need for FDI will require a pragmatic policy towards its traditional economic partners in the developed world which will remain the main source of current and future FDI flows to SA. A sobering reminder to the SA government is that 73.1% of the FDI inflows to SA in 2012 came from the US, UK, Germany, France, the Netherlands, and Japan. Only 1.5% came from China, which is even less than the 4.1% of inflows from Africa (South African Institute of Race Relations, 2014, p. 130).

CONCLUSION

SA's poor performance in attracting FDI is confirmed when benchmarked against its peer BRICS nations. Even when compared with a larger cohort of Emerging Market countries,

SA's underperformance as a host country for FDI inflows is evident. However, SA is closing the FDI gap between its potential and its actual performance. An analysis of the determinants of SA's FDI inflows indicates that the country's poor economic growth rate among BRICS is most likely the reason why the country is lagging behind its peers in market attractiveness. SA is also less attractive for MNEs seeking efficiency due to the country's labor market rigidities and labor unrest (South African Institute of Race Relations, 2014, p. 130). For asset-seeking companies, SA is less attractive due to its deficits in R&D, skills shortage, and educational and regulatory impediments in human resource development. Although SA is a prime supplier of minerals, the poor mining environment, caused by labor strikes and intrusive governmental regulations, has diminished the country's attractiveness for resource-seeking investors. The deficiencies in SA's physical and IT infrastructures are a concern since supply chain effectiveness is a critical competitive advantage for any country aspiring to attract FDI. The positive news is that SA has relatively good institutions which signal predictability to potential investors.

A number of policy recommendations are proposed for governmental policy makers. Primarily, the SA economy must grow at a faster rate in order to attract FDI, which in turn, will complete a virtuous cycle by stimulating growth. The focus of government policy should be to attract FDI to industries using low wage and low skill labor. Such an investment will reduce unemployment, increase the economically active workforce, and increase per capita income. The government needs to improve Special Economic Zones, particularly Industrial Development Zones (IDZ). IDZ will be most suitable for targeted investments since they offer favorable and competitive investment environments which are distinct from the national business environment. IDZ are also unencumbered by a toxic collective bargaining system.

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Internationalization of Grocery Retailing in Poland

Grzegorz Karasiewicz
Jan Nowak
Mariusz Trojanowski

ABSTRACT. The paper concerns the internationalization processes of the grocery retailing sector in Poland in the years 1990-2015. It is based on an analysis of foreign retail chains operating in the Polish market. The authors analyze key dimensions of international retailers' behavior and strategy, according to a research framework designed by the authors, and test four groups of hypotheses. The main conclusions of the analysis are the following: Foreign chains dominate the grocery retailing sector, particularly in large retail formats; the internationalization phase took place between 1990 and 2001; the most common entry strategy followed by the foreign retailers was green-field investment; the vast majority of foreign investors came from western European countries and the dominant position is occupied by French retailers.

KEYWORDS. Internationalization of retailing, grocery retailing, foreign retail chains, large retail formats, Poland

INTRODUCTION

The internationalization of a retail company denotes entry into foreign markets, and establishing and operating the company's retail outlets in those markets (Dawson, 1994; Alexander, 1997, p. 37; Gilbert, 1999, p. 315). Entering foreign markets represents one of the two main expansion paths. The other path consists of establishing new retail formats—organic growth, which represents a product development dimension in retailer growth (Borusiuk, 2008, p. 96-104).

The internationalization of the retailing industry in Poland has to be viewed in the context of the country's economic transformation initiated in the early 1990s (Sławińska, 2004; Dawson, 2001; Karasiewicz & Nowak, 2010).

Grzegorz Karasiewicz, Ph.D. and Mariusz Trojanowski, Ph.D. are Professors of Marketing at the Faculty of Management, University of Warsaw, Poland, and Jan Nowak, Ph.D. is a Professor of Marketing and International Business and Director of MBA Programs at the IDB Business School in Warsaw, Poland.

Address correspondence to Dr. Jan Nowak, IBD Business School, 9 Panieńska Street, 03-704 Warsaw, Poland. E-mail: jnowak@ibd.pl

Transformation meant abandoning the centrally-planned system and adopting a market-led system. Prior to transformation, the retailing industry in Poland was characterized by low economic efficiency and low organizational effectiveness, which manifested themselves in merchandise shortages and poor customer service at retail outlets. The structure of retailing was dominated by large state-owned and cooperative organizations, monopolizing retail trade in both product-category and geographic-area dimensions.

At the beginning of the transformation period, the retailing industry in Poland was subjected to de-concentration and de-monopolization processes. This meant taking over individual outlets, being divested by state and coop monopolistic organizations, by employees of these organizations (which was the most common situation) or the purchasing of these outlets by the fledgling private sector (Earl et al., 1994; Szromnik, 2001; Sławińska, 2006; Karasiewicz & Nowak, 2010). Currently, the retailing industry in Poland is almost all privately owned (in 2014, the private sector represented 99.5% of ownership), and in terms of economic efficiency and organizational effectiveness, it is comparable to that of Western European countries (Karasiewicz & Trojanowski, 2016b). Moreover, one can observe numerous innovations, which lead to structural changes in line with the concept of convergence of retailing in Europe (Tordjman, 1994; Sławińska, 2011).

Poland relatively quickly became an attractive market for international retail chains (Dawson, 2001; Grzesiuk, 2005); the first retailers entered the Polish market in the early 1990s (Globi in 1990, Billa in 1991, Leclerc in 1992, and Rema in 1993). The internationalization of the Polish retailing industry was also spurred by a general trend towards internationalization of retail companies, not only in Europe but also globally (Dawson, 1994; Tordjman, 1994; Sławińska, 2004; Dawson, 2007; Alexander & Doherty, 2010). The growing importance of foreign entities operating in the Polish retailing market can be illustrated by a steady growth in the share of these entities in retail sales over the period 1990-2015 (Michalik, 2001; Dawson, 2007; Karasiewicz & Nowak, 2010; Karasiewicz & Trojanowski, 2016a). Indeed, by 2015 the share had reached almost 50% of the total market and over 50% of the grocery segment. However, the share of foreign retail chains is much smaller when the number of stores is taken into account (only 4.1%), which means that they operate much bigger stores than the local competition. This is reflected in a much greater share of international retailers in the retail sales area (amounting in 2014 to 21.7%) than in the number of stores (see Table 1). The purpose of this paper is to provide answers to the following questions in relation to the internationalization process of grocery retailing in Poland:

1. What were the phases of the internationalization process?
2. What was a dominant entry strategy of the international chains?
3. What were the countries of origin of international entrants, and which country dominated?
4. What retail formats were brought by international retailers to the Polish market and why? Which formats dominate?

Before we set out to seek answers to the above questions through empirical research, we provide an overview of the relevant conceptual models that will guide our investigation.

INTERNATIONALIZATION OF RETAILING FROM THE HOST COUNTRY PERSPECTIVE –A REVIEW OF CONCEPTUAL MODELS

In describing the processes of retailing internationalization from a perspective of a host country that has undergone economic transformation and/or is characterized by a relatively

low level of development, one can use three conceptual models derived from the relevant literature, namely:

- Stages of the retail transformation model (Dries et al., 2004);
- Phases of the evolution of retailing model (Karasiewicz & Nowak, 2010); and
- Waves of diffusion of the modern retailing model (Reardon et al., 2003; Reardon et al., 2007).

Table 1. Internationalization of Retailing in Poland, 1990-2015 – Basic Statistics

Years	Share of large-format stores in total number of stores, in %	Share of foreign-owned stores and petrol stations in total numbers, in %	Share of foreign-owned stores and petrol stations in total retail sales area, in %	Share of foreign entities in retail sales, in %	Share of foreign entities in grocery retail sales, in %
1990	NA	NA	NA	NA	NA
1991	NA	NA	NA	NA	NA
1992	NA	NA	NA	NA	NA
1993	NA	NA	NA	NA	NA
1994	NA	NA	NA	NA	NA
1995	0.2	0.2	NA	NA	NA
1996	0.2	0.2	NA	NA	NA
1997	0.2	0.3	NA	NA	NA
1998	0.2	0.4	3.7	NA	NA
1999	0.3	0.6	5.2	NA	NA
2000	0.4	0.7	6.5	NA	NA
2001	0.4	0.7	8.5	NA	NA
2002	0.5	0.7	8.5	NA	NA
2003	0.5	0.9	13.6	NA	NA
2004	0.7	1.1	14.8	NA	NA
2005	0.8	1.4	15.6	NA	NA
2006	0.8	1.5	16.5	22.0	30.8
2007	1.0	1.8	17.6	27.3	34.1
2008	1.0	2.0	20.4	30.5	37.1
2009	1.2	2.6	22.4	33.3	46.6
2010	1.4	3.3	24.1	35.6	46.7
2011	1.6	3.8	24.8	38.9	46.6
2012	1.7	3.7	26.6	41.4	51.6
2013	1.9	3.9	27.8	44.0	51.5
2014	2.0	4.1	27.1	45.3	53.2
2015	NA	NA	NA	46.6	54.8

Source: Authors'own calculations based on: GUS (Roczniki Rynek Wewnętrzny, 1989-2015) and *Euromonitor - Global Market Information Database, 2006-2015*

In the first model, Dries et al. (2004) distinguish three stages of retail transformation in Central and Eastern Europe (CEE): communism, transition, and globalization. Each of these stages has different characteristics (see Table 2). All CEE countries were going through these three stages; however, the duration of the stages and thus the speed of transition was different in individual countries. In Poland, the transition stage started in 1989, whereas the globalization stage began around 1996 (Dries et al., 2004).

Table 2. Characteristics of RetailingTransformation Phases in Central and Eastern Europe

Characteristic	Communismstage	Transition stage	Globalization stage
Concentration in retail sector	High	Low	High
Dominant source of capital	Domestic – public (state and co-op)	Domestic - private	Foreign - private
Share of foreign capital	Dominant domestic	Dominant domestic	Dominant foreign
Form of FDI	-	Brownfield	Greenfield
Share of modern retailing	Low	Low	High
Share of large retail multinationals	-	Low	High
Location of modern retail outlets	-	Cities	Everywhere
Timeframe in Poland	Before 1990	1991-1996	After 1996

Source:Adapted from Dries et al. 2004.

In Karasiewicz and Nowak's (2010) model there are three phases of structural changes in the retail sector: Privatization and decentralization, internationalization, and concentration and consolidation. They also envisioned a fourth phase, that of innovation and modernization of retailing, which was further refined by Karasiewicz & Trojanowski (2016b) (see Table 3). Although this model was developed based on the retail sector evolution in Poland, it is also applicable to other post-communist countries of eastern and central Europe.

Each phase is marked by a dominant transformational trend, shaping the structure and behavior of retail actors, including consumers, in accordance with the Adjustment Theory in retailing (Anitsal & Anitsal, 2011).

In the first phase, the structural changes in the retail sector are caused by new regulations—the removal of restrictions on economic activity and privatization laws. The key impulse to usher in the second phase is an attractiveness of the retail market to foreign investors. In the case of Poland, it was the second half of the 1990s (Dawson, 2001; Tatoglu et al., 2003; Grzesiuk, 2005). This is consistent with the internationalization model of retail firms, for which the degree of attractiveness of the host country is one of the main considerations in international expansion (Alexander & Meyers, 2000; Coe & Wrigley, 2007; Chan et al., 2011). The concentration and consolidation phase was, in turn, a result of the internationalization phase. Upon their entry into the market, foreign retailers with capital resources at their disposal seek to build a strong market position in the segments (retail formats) they operate through acquisitions and organic growth. In more recent years, the retail sector in countries such as Poland has been subject to innovation

processes, both incremental and breakthrough innovations (Reinartz et al., 2011).

Reardon et al.'s model delineates four waves of modern retailing (supermarkets) diffusion in developing countries (Reardon et al., 2003; Reardon et al., 2007; Nguyen et al., 2013). The point of departure of the model is an analysis of FDI in the retail sector in the last decade of the last century and the first decade of the present century (see Table 4). The first wave, taking place in the first half of the 1990s, spread over (some of) the countries of such world regions as South America, the Far East, Central Europe, and South Africa.

Table 3. Characteristics of the Phases of Structural Changes in Retailing of Post-communist Countries

Characteristics	Privatization phase	Internationalization phase	Concentration phase	Innovation phase
Main driver of the change	Regulatory changes	Attractiveness of the host country market	Building market position through economies of scale	Building market position through innovation
Ownership structure	State/coop& private	Private	Private	Private
Degree of concentration	High, decreasing	Low, increasing	High, increasing	High, increasing
Degree of internationalization	Low	Low, increasing	High, increasing	High,stable
Share of modern retail formats	Low	Low, increasing	High, increasing	High,stable
Share of Internet retailing	-	-	Low, increasing	High, increasing
Time frame	1990-1994	1995-2000	2001-2010	After 2010

Source: Authors' own work based on Karasiewicz & Nowak 2010; and Karasiewicz & Trojanowski 2016b.

The second wave, occurring in the latter part of the 1990s, concerned Central America, Southeast Asia, and Southeast Europe. In the years 2001-2005, the third wave took place, bringing modern retailing to East Asia, South Asia, and Eastern Europe. The fourth wave started in 2005 and has been observed in less-developed countries of such world regions as South America, East Asia, Southeast Asia, and parts of Africa. Reardon et al.'s model attests to a rapid spread of modern retail formats across developing and transition countries after the "take-off" in the early to mid-1990s. This was possible largely due to an accelerated internationalization of retail chains from developed countries.

RESEARCH METHODOLOGY

The subject of research in this paper is the grocery retail sector in Poland during the years 1990-2015. The point of departure is an identification of foreign retail companies operating in the Polish market. We use databases of Euromonitor (Euromonitor - Global Market Information Database 2006-2015), which contain information on foreign enterprises and their brands (retail formats) present in the grocery retail market and having at least 0.1% market share in the years 2006-2015. Our analysis is conducted at the brand level (retail formats run by foreign retailers). Some of the foreign retailers have operated in Poland, using two or more brands (retail formats). E.g., Tesco Plc

runs stores in Poland under two brands (formats): Tesco (hypermarkets) and Tesco Extra (supermarkets). Our analysis does not include stores located at petrol stations and cash-and-carry outlets.

Table 4. Waves of Diffusion of Modern Retailing in Developing Countries

Years of take-off waves	1991-1995	1996-2000	2001-2005	2005 -
Regions/countries	South America (Chile, Argentina, Brazil) Far East (S. Korea, the Philippines, Thailand), Central Europe (Poland, Czech Rep., Slovakia,Hungary) and South Africa.	Central America (Mexico), South-east Asia (Indonesia), South-East Europe (Romania, Bulgaria)	East Asia (China, Vietnam), South Asia (India), Eastern Europe (Belarus, Ukraine)	South America (e.g. Bolivia), South Asia (e.g. Burma), South-east Asia (e.g.Cambodia), some of African countries (e.g. Kenya, Zambia, Egypt, Algeria, Morocco).
Share of modern retailing in grocery market	10-20% in 1990 50-60% in 2008	5-10% in 1990 30-50% in 2008	0% w 1990 1-20% in 2008	-

Source: Authors' own work based on: Reardon et al., 2003; Reardon et al., 2007; and Nguyen et al., 2013.

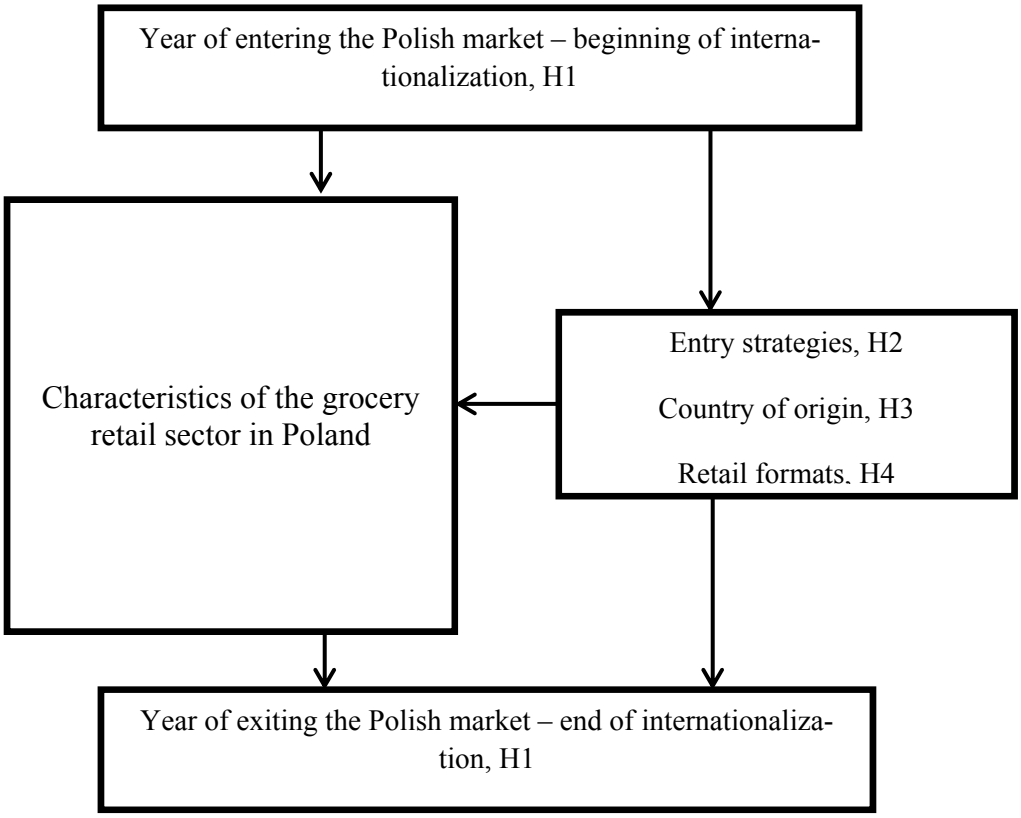
A list of enterprises derived from the aforementioned Euromonitor source was supplemented by entities that operated in the Polish market before 2006 (e.g., Billa, Globi, Rema 1000, Julius Meinl, Hit, Jumbo, and TiP) and which have subsequently withdrawn from the market. We then collected information on the activities of the identified entities from secondary data sources, i.e., websites (Polish and those of the home country), as well as reports containing financial data (e.g., annual reports and reports of the management boards).

Our empirical investigation is guided by the research framework depicted in Figure 1. The framework is composed of the following elements:

- Description of the grocery retail market, with focus on the degree of its internationalization;
- Determination of the timing of entry of foreign retailers into the Polish market and the timing of exit from the market of those retailers that had not achieved the planned market position;
- Profiles of foreign retail companies in three dimensions: entry strategy, country of origin, and retail formats used in Poland.

In line with the research objective stated earlier and the research framework set out in Figure 1, and in reference to the retail development models reviewed in the preceding section, we put forward several hypotheses in the following areas of our research scope: A time frame of the internationalization and de-internationalization processes taking place in Poland; entry strategies of foreign entrants; countries of origin of foreign retail chains; and retail formats used by foreign entrants.

Figure 1. The Research Framework



Since the mid-1990s, retail formats associated with modern retailing (supermarkets, hypermarkets, and discount stores) have spread spectacularly rapidly across developing and emerging markets (including post-communist economies). Reardon et al. (2007) call this process "diffusion of supermarkets." Coe (2004) describes diffusion of supermarkets as unprecedented in terms of "sheer rapidity," scale, and development impact. These diffusion processes were determined by both demand factors (growing incomes, progressing urbanization and improvements in transport infrastructure, etc.) (Reardon et al., 2003; Reardon et al., 2007) and supply factors (penetration of retail sectors of developing and emerging markets by major international retail chains), and spurred by institutional and regulatory reforms, leading, *inter alia*, to FDI liberalization (Dawson, 2001, Reardon & Berdegué, 2002; Reardon et al., 2007).

After a period of a dynamic development of modern retail formats in developing and post-communist countries, there appeared consolidation of international retailers in these countries, leading to the phenomenon of de-internationalization, i.e., exiting the markets by international players (Alexander & Quinn, 2002; Burt et al., 2002, Burt et al., 2003, Wrigley & Currah, 2003; Burt et al., 2004; Palmer, 2004; Alexander et al., 2005; Palmer & Quinn, 2007; Cairns et al., 2008).

When describing the internationalization of retailing, it is important to be able to determine both a take-off point and an end, marked by the beginning of de-internationalization. In the case of Poland, the beginning and the end of the diffusion of modern retail formats can be determined by applying the three models reviewed before: the stage of transition in Dries et al.'s (2004) model points to 1991 as the start date

and to 1996 as the end; the phase of internationalization in Karasiewicz and Nowak's (2010) model indicates that the take-off took place in 1995 and the end was in 2000; and the first wave of the diffusion of modern retailing in Reardon et al.'s model falls in the first half of the 1990s.

The above considerations lead us to the formulation of the following hypothesis:

H1. The take-off date of the internationalization process of grocery retailing in Poland was the year 1991, and the year 2000 marked the end of the internationalization phase.

A choice of international market entry strategy in the retail sector can be hypothesized based on a number of theoretical models (concepts): Dunning's eclectic paradigm or OLI model (Dunning, 1980; Dunning, 1988; Dunning, 1995; Dunning, 2000; Dunning, 2001; Park & Sternquist, 2008); the Uppsala internationalization model (Johanson &Wiedersheim-Paul, 1975; Johanson &Vahlne, 1977; Johanson &Vahlne, 1990; Vida, 1997; Vida & Fairhurs, 1998; Vida et al., 2000), or the institutional theory (Davis et al., 2000; Huang & Sternquist, 2007). While analyzing the entry-strategy choice from a retailer's perspective, as well as from the host-country perspective, we consider the OLI model most applicable (Park & Sternquist, 2008).

The OLI model consists of three factors determining FDI, namely: ownership (O), location (L), and internalization (I) advantages (Dunning, 1980; Dunning, 1988; Dunning, 1995; Dunning, 2000; Dunning, 2001). The first factor, ownership (O) advantages, leads retail companies to the choice of green-field investment, over acquisitions or joint-ventures, as a mode of entering foreign markets via FDI. Ownership advantages can take the form of a unique retail format, the power of the brand, unique retailing competences, or the scale of operations, particularly in countries with a lower level of development of the retail industry (Sternquist, 1997; Park & Sternquist, 2008). It can also be a marketing competence and positioning, as was the case of Lidl's entry into the Polish market via green-field investment. The "European positioning" and the ability to feature products from the various European countries proved to be a smart marketing strategy of Lidl when Poland was joining the European Union.

The second factor, location (L) advantages, is associated with the attractiveness of the host country. International retailers tend to choose FDI as a mode of entry (green-field and acquisitions), which provides them with a greater degree of control, in countries with attractive markets (in terms of sales potential, weak competition, favorable regulatory environment, etc.), particularly if such attractiveness is growing, as was the case with Poland in the latter part of the 1990s (Tatoglu et al., 2003), and the prospects for financial rewards are good (Park & Sternquist, 2008). The third factor, internalization (I) advantages, is also conducive to the choice of green-field investment or acquisition over, e.g., licensing or franchising, as FDI minimizes transaction costs and prevents the investing company from losing its proprietary assets (Park & Sternquist, 2008). The dominance of the entry strategy based on green-field investment in the retail sector is also associated with the unique characteristics of this sector: the possibility of gradual opening of new stores, the avoidance of high capital outlays, the possibility to withdraw from the market in the early periods of expansion in a given foreign market, and the avoidance of high risk (Dawson, 1994). Taking into account the specificity of developing and transition countries vis-à-vis the phase of internationalization, particularly at the beginning of the internationalization process, the dominance of green-field FDI is also justified by the lack of local entities to take over (Karasiewicz & Nowak, 2010). Hence our second hypothesis can be stated in three variants:

H2.A. The dominant mode of entry into the Polish grocery retail market in the years 1990-

2015, chosen by multinational retailers, was the green-field type of FDI.

H2.B. During the internationalization phase, the degree of domination of green-field investment was even higher than in the entire period under study (1990-2015).

H2.C. After the internationalization phase of the grocery retail sector, the dominant entry strategy by international retailers was through acquisitions.

According to the first component of the OLI model (Dunning, 1980; Dunning, 1988; Dunning, 1995; Dunning, 2000; Dunning, 2001), retail companies entering foreign markets characterized by a lower level of economic development than their home country tend to gain competitive advantage by utilizing unique retail formats, unique competences, and greater financial resources than their local competitors. Scholars attempting to explain the choice of a host country in the internationalization of retailing often use the Uppsala model (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; Johanson & Vahlne, 1990) and the second component of the OLI model as theoretical frameworks. They point out the importance of cultural and geographical proximity in making foreign-market choice decisions. Based on the research of American retail firms expanding abroad, Sternquist (1997) concluded that cultural and geographic proximity indeed represents one of the most important factors in foreign-market choice. This, on one hand, can be explained by the desire to reduce uncertainty and costs of information acquisition, and, on the other hand, by the possibility of extending the home-country business model to similar markets abroad. Gripsrud and Benito's (2005) study of British retailers expanding internationally points to a greater significance of geographic than cultural distance. Indeed, research conducted by Myers and Alexander (2007), focused on the structure of retailing in European countries, points to a dominant presence of retail companies originating from large European countries, such as Germany and France. Accordingly, our two variants of Hypothesis 3 are as follows:

H3.A. A dominant number of international retail companies entering the Polish market originate from highly developed European countries, such as Germany, France, and the UK.

H3.B. Due to their geographic proximity, German retailers enjoy the largest share in the Polish grocery retail trade.

In order to utilize the O-advantages (according to Dunning's eclectic model), international retailers compete against small, local, independent retailers by introducing and adapting their large retail formats (such as hypermarkets, supermarkets, and discount stores) to the host market and by expanding their scale of operations to gain economies of scale (Reardon et al., 2003; Dries et al., 2004; Reardon et al., 2007; Karasiewicz & Nowak, 2010; Nguyen et al., 2013). International retailers also take advantage of their knowledge, experience, and managerial competences in running such large retail formats. Such knowledge, experience, and competences are transferred from their home countries, as well as from other international markets they entered before, to the host country (Gielens & Dekimpe, 2001; Park & Sternquist, 2008).

At the same time, the specific conditions of the host market—relatively low incomes, low levels of car ownership, limited storage space of households, legal restrictions on land acquisition for retailing purposes, large parts of the population living in rural areas and small towns—can lead, in accordance with the Adjustment theory in retailing (Anitsal & Anitsal, 2011), to the popularity of the retail formats that are best suited for such conditions. A modern retail format that seems to be well adapted to the specific conditions of developing and transition countries is a discount store. Based on the above considerations, we hypothesize as follows:

H4.A. The dominant retail formats used by international retailers in Poland are hypermarkets, supermarkets, and discount stores.
H4.B. Foreign entities have a dominant share in each of the modern retail formats.
H4.C. The largest share in the Polish grocery retail industry has been achieved by foreign retailers operating discount store formats.

ANALYSIS OF RESULTS

Verification of Hypothesis 1

The first foreign entrants in the Polish grocery retail sector appeared in 1990 (Globi). This year can be considered as the beginning of the internationalization process (take-off) of the sector.

In the years 1990-2015, 37 international entities (retail chain brands), representing different retail formats, were introduced in the Polish market. Over the same period, 17 entities (brands) quit the market (de-internationalization). The main reason of their exit was the inability to achieve the planned market position. This means that in 2015, 20 foreign entities (with at least 0.1% of market share) operated in the Polish grocery retail market. The largest number of entities (format brands) entered the Polish market over a 6 year period between 1990 and 1995; in the subsequent years, the number of entrants was smaller and smaller: In the period of 1996-2000 (5 years), 11 international retail brands appeared in the market, and over the 15 years of the new millennium, only 12 new retail establishments entered the Polish market. The opposite tendency could be observed in the number of exits of international retailers. From 1990 until 2001, only three entities (brands) withdrew from the Polish market, whereas in the period between 2001 and 2015, 14 brands quit the market. This was a result of the consolidation processes taking place in the Polish grocery retail industry during that period. Based on the net number of foreign retailers operating in the market, we can determine the year 2001 as the end of the internationalization process. This is the year when the largest number of foreign entities (brands) operated in the grocery retail sector (see Table 5). Thus H1 can only be partly confirmed, although the difference between the hypothesized and the actual take-off and breakthrough is only one year. Thus: H1 – can be partially accepted.

Verification of Hypotheses 2A, 2B and 2C

The dominant entry strategy in the grocery retail market chosen by international retailers was a green-field investment. Greenfield accounted for 60% of all the entries into the market. Very few foreign retailers were choosing acquisitions of existing stores or chains (including franchise chains). Altogether only 9 entities chose acquisitions, which represented 25% of all market entries. Strategies based on franchising were followed by only those retailers that had franchising as their business model (i.e., Spar, Intermarché) or those that were associated with creating new formats in the Polish market, leading to an integration of small grocery stores into chains (i.e., Freshmarket, Carrefour Express, and Odido). Up to 2002, the dominance of greenfields as entry strategies increased to 80% of entry modes. In the years 2002-2015, one could observe a relative equilibrium between the Greenfield and acquisition modes of entry. By 2015, the dominance of green-field investment as a mode of entry into the Polish grocery retail market diminished to 40% of all the entry modes. This means that multinational retailers who decided to continue their operations in the Polish retail industry strove to improve their market position by acquiring entities (brands) of the foreign retailers exiting the Polish market (see Table 6). In conclusion, we state the following results:

Table 5. Number of Foreign Entities (Brands) Present in the Polish Grocery Retail Sector– Market Entry and Exit

Years	Number of entities (brands) - entry	Cumulative number of entities (brands) - entry		Number of entities (brands) – exit	Cumulative number of entities (brands) - exit		Net number of entities (brands)
1990	1	1		0	0		1
1991	1	2		0	0		2
1992	1	3		0	0		3
1993	2	5		0	0		5
1994	2	7		0	0		7
1995	7	14	14	0	0	0	14
1996	3	17		0	0		17
1997	3	20		0	0		20
1998	3	23		0	0		23
1999	1	24		2	2		22
2000	1	25	11	1	3	3	22
2001	1	26		0	3		23
2002	2	28		3	6		22
2003	0	28		1	7		21
2004	0	28		0	7		21
2005	0	28	3	1	8	5	20
2006	1	29		4	12		17
2007	1	30		1	13		17
2008	0	30		0	13		17
2009	2	32		0	13		19
2010	0	32	4	1	14	6	18
2011	4	36		2	16		20
2012	0	36		0	16		20
2013	0	36		0	16		20
2014	0	36		1	17		19
2015	1	37	5	0	17	3	20

Source: Authors'own calculations based on data presented in Appendix 1.

H2A – can be accepted.
H2B – can be accepted.
H2C – should be rejected.

Verification of Hypotheses 3A and 3B

The largest share of the Polish grocery retail market is held by retailers from Western Europe ("old" members of the EU). Only three

Table 6. Modes of Entry of International Retailers into the Polish Grocery Retail Sector, 1990-2015

Mode of entry	Number of foreign entities (brands), 1990-2015	% share in total	Number of foreign entities (brands), 1990-2000	% share in total	Number of foreign entities (brands), 2001-2015	% share in total	Net number of foreign entities (brands), 2015	% share in total
Franchising – one franchisee	1	2.7	1	4.0	0	0.0	1	5
Franchising – multiple franchisees	4	10.8	1	4.0	3	25.0	3	15
Joint venture	0	0.0	0	0.0	0	0.0	0	0
Acquisition of domestic retail firm/stores	3	8.1	2	8.0	1	8.3	5	25
Acquisition of international retail firm/stores	2	5.4	0	0.0	2	16.7	0	0
Global acquisition	1	2.7	1	4.0	0	0.0	1	5
Acquisition of a domestic franchise chain	1	2.7	0	0.0	1	8.3	0	0
Acquisition of an international franchise chain	2	5.4	0	0.0	2	16.7	2	10
Greenfield investment	23	62.2	20	80.0	3	25.0	8	40
Total	37	100	25	100	12	100	20	100

Source: Authors' calculations based on Appendix 1.

Table 7. Home Countries of Foreign Entities (Brands) Operating in the Polish Grocery Retail Sector, 1990-2015

Countries	Number of foreign entities (brands)	% share in total	Net number of foreign entities (brands) in 2015	% share in total	% share of foreign entities (brands) in grocery retail sales in 2015
France	11	29.7	8	40	13.2
Germany	9	24.3	4	20	12.4
Netherlands	3	8.1	1	5	0.3
Austria	2	5.4	0	0	0
Portugal	2	5.4	1	5	18.9
UK	4	10.8	4	20	8.1
Czech Rep.	2	5.4	0	0	0
Belgium	1	2.7	0	0	0
Denmark	1	2.7	1	5	1.8
Lithuania	1	2.7	1	5	0.1
Norway	1	2.7	0	0	0
Total	37	100	20	100	54.8

Source: Authors' calculations based on Appendix 1 and *Euromonitor - Global Market Information Database,* 2006-2015.

entities come from the new member countries of the EU: two from the Czech Republic and one from Lithuania. It is noteworthy that France is the country from which the largest number of retailers entered the Polish market and continues to outnumber any other country, including Germany, Poland's neighbor to the west. It should be pointed out that half of the German retailers that had entered the Polish market have subsequently exited it. Again, the main reason for the exit decision was the fact that these retailers had not been able to achieve the planned market position, which in some cases (e.g., HIT) was related to limited financial resources, not sufficient to successfully compete with other international entrants.

However, from the point of view of the market share, the dominance of French retailers is not as visible as it is according to the number of entities. While the French chains account for 13.2% of the grocery retail sales in Poland, the German retailers trace them with a market share of 12.4%. A country that has the largest share in the Polish grocery retailing is Portugal, which holds 18.9% of the market. This share is captured by only one chain of discount stores owned by the Portuguese company Jeronimo Martins: Biedronka. Moreover, Biedronka represents the largest business unit of the Portuguese firm, as it accounts for 66% of Jeronimo Martins' revenues from retail sales (see Table 7). Based on the above analysis we can state the following:

H3A – can be accepted.

H3B –should be rejected.

Verification of Hypotheses 4A, 4B and 4C

Foreign retailers operating in Poland run mostly three large retail formats: hypermarkets, supermarkets, and discount stores. The share of these three formats, both in the number of entities (brands) and the retail turnover, is overwhelming: 80.5% and 92.6%, respectively.

The dominance of international retailers is visible in all modern formats, with the exception of minimarkets. In the "supermarkets" category, the share of international companies amounts to 63.3%, in the "hypermarket" format it is 100%, and in the "discount store" category it is 92.6%. This clearly points to the dominance of foreign capital in Poland's modern retailing. Among the three modern retail formats, the leading position is occupied by companies running supermarkets, which in 2015 represented 35% of all retail entities. However, when turnover is taken into account, discount stores become the most popular retail format, representing 48% of total turnover of the grocery retail sector (see Table 8). Accordingly, we can verify the three hypotheses pertaining to modern retail formats, as follows:

H4A. – can be accepted.
H4B. – can be accepted.
H4C.– can be partly accepted.

Table 8. Retail Formats of Foreign Entities (Brands) Present in the Polish Grocery Retailing Sector, 1990-2015

Format	Number of entities (brands)	% share in total	Net number of entities (brands) in 2015	% share in total	% share in total grocery retail sales in 2015
Supermarket	13	35.1	7	35	14.3
Hypermarket	9	24.3	4	20	9.7
Discount store	8	21.6	4	20	26.2
Minimarket	7	18.9	5	25	4.6
Total	37	100	20	100	0

Note: E. Leclerc runs two store formats: supermarkets and hypermarkets; however, since a vast majority of Leclerc's outlets are supermarkets, the company was assigned to the supermarket category.
Source: Authors' calculations based on Appendix 1 and *Euromonitor - Global Market Information Database,* 2006-2015

CONCLUSIONS, LIMITATIONS AND FURTHER RESEARCH

International retailers operating in the Polish grocery market have played a positive role not only in the transformation and modernization of the retailing sector (Karasiewicz & Nowak, 2010), but also in stimulating the changes and development in the whole economy (Głowacki & Karasiewicz, 2009). They have directly influenced all the stages in the distribution system in a positive way.

First, foreign retailers have contributed to a rapid diffusion of modern marketing tehniques and practices and high quality standards in the manufacturing sector, as well as improvements in farming practices. This, in turn, has led to an improved quality of food products sold to consumers (Reardon et al., 2003; Dries et al., 2004; Reardon et al., 2007; Nguyen et al., 2013). This process has also created increased standards of living of Polish people. Many of the Polish suppliers have strengthened their market and financial position alongside the international retailers' penetration of the Polish market. These suppliers are nowadays not only key partners in the domestic supply chains but also important deliverers of food products to global supply systems of transnational retailing

corporations. Second, international retail chains have contributed to the positive changes in the operations of Polish retail and wholesale firms. Moreover, international retailers have induced the integrative processes among small Polish retailers, which have established retail chains, such as Lewiatan and Eurocash (ABC chain). Third, the changes brought about by international retailers benefited consumers; they have gained access to a variety of retail outlets, to a broader assortment of products with consistent quality, and to a wider range of services. According to the theory of convergence in retailing (Tordjman, 1994), the Polish retail industry is now close to the structural features and quality levels of products and services found in developed countries.

The analysis conducted for this paper, based on secondary data, allows us to delineate important trends and patterns, characterizing the internationalization processes of the Polish retail sector during the years 1990-2015. They are captured in the following points:

1. The intensive internationalization of retailing phase took place between 1990 and 2001. In the latter year, the number of foreign entities (brands) operating in the Polish grocery retailing sector was the highest. The largest number of international retailers entering the market was recorded in the period of 1993-1998 (more than 50% of all market entries). This is consistent with expectations based on theoretical considerations (e.g., Dunning's OLI model). During that period, the Polish market was characterized by high and growing demand for food, strong economic growth, decreasing political and legal risk (imminent admission to the EU), and a low intensity of competition (Tatoglu et al., 2003; Gripsrud & Benito, 2005; Myers & Alexander, 2007). From 2002 on, one could observe consolidation of the retailing industry and signs of de-internationalization on the part of those retail chains that had not reached a satisfactory position on the Polish market. This trend confirms the concept (theory) of de-internationalization of retailing companies (Alexander & Quinn, 2002; Burt et al., 2002, Burt et al., 2003, Wrigley & Currah, 2003; Burt et al., 2004; Palmer, 2004; Alexander et al., 2005; Palmer & Quinn, 2007; Cairns et al., 2008).

2. The dominant entry strategy chosen by international retailers entering the Polish market was green-field investment. This type of investment allowed the retail chains to utilize competitive advantages explained by the eclectic OLI model (Dawson, 1994; Huang & Sternquist, 2007). The choice of this mode of entry was also determined by the lack of attractive local acquisition candidates which, in turn, was associated with a high level of fragmentation of Polish retailing at the time (Karasiewicz & Nowak, 2010). An exception was the local chain called Biedronka acquired by Jeronimo Martins in 1997. After 2001, one can observe a better balance between the three principal modes of entry: green-field investment, acquisition, and franchising. This stemmed from an opportunity to take over stores of international retailers exiting the market, the emergence of local retail chains, the setting up of franchise organizations encompassing small Polish store owners, and the limited access to land required for building large store formats.

3. The Polish grocery retail sector is dominated by foreign investors from the western part of EU. This is also consistent with the premise derived from the OLI model and from the Uppsala model of internationalization. International retailers choose those countries where they are able to capitalize on their ownership advantages and the countries with low cultural and geographic (psychic) distance (Sternquist, 1997; Gripsrud & Benito, 2005; Myers & Alexander, 2007). Somewhat surprisingly, however, the largest number of foreign entities (brands) operating in the Polish grocery retail sector does not come from Germany, which is the closest western European neighbor of Poland, but from France.

4. Foreign retailers operate in Poland mostly large retail formats, supermarkets, hypermarkets, and discount stores, and create chains in order to build negotiation powers vis-à-vis suppliers (Reardon et al., 2003; Dries et al., 2004; Reardon et al., 2007; Karasiewicz & Nowak, 2010; Nguyen et al., 2013). The retail format that accounts for the largest share (almost 50%) in total grocery retail sales is discount store.

This study has certain limitations. These limitations are mostly associated with (1) an incomplete list of retailing entities (brands) studied (excluded from the study were entities with a marginal market share and short-lived presence in the Polish market); (2) not including the cash-and-carry format, which plays a significant role in the strategy of some of the multinational companies (e.g., Metro Group), and Internet retailing, which is rapidly growing; (3) not including stores operated at petrol stations; and (4) relying only on secondary data sources.

As far as further research is concerned, we see an opportunity to expand the current scope of research in three ways. First, there is a need to supplement secondary data sources with primary qualitative research data. In particular, it would be pertinent to conduct interviews with representatives of selected retail companies, including those that have succeeded in the Polish market and have remained, and those that have withdrawn from the Polish retail market. Second, a comparative analysis of the retail sector internationalization in Poland and other CEE countries, particularly those that are at a similar level of development (Czech Republic, Hungary, and Slovakia) would provide new perspectives and permit some generalizations. Third, broadening the scope of research to include other product categories (e.g., garment, furniture, consumer electronics, and pharmaceuticals) would provide a more complete picture of the internationalization of the retail sector and an opportunity to determine the influence of product category on the internationalization of retailing.

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Appendix 1. Entities (Brands) of International Companies Operating in the Grocery Retail Sector in Poland, 1990-2015

Entity (brand)	**Home country**	**Year of entering the Polish market**	**Entry mode**	**Store format**	**Continuation of operations in the Polish market?**
GIB (Globi)	Belgium	1990	Green-field investment	Discount store	No. Acquisition by Carrefour SA (Champion) in 2000
Billa,from 1997 ReweZentral AG (Billa)	Austria	1991	Green-field investment	Supermarket	No. Acquisition by Auchan Group SA (Elea) in 2002
Julius Meinl International AG (Julius Meinl)	Austria	1992	Green-field investment	Supermarket	No. Acquisition by Tesco Plc (Savia) in 2005
Retain (Rema 1000)	Norway	1993	Green-field investment	Discount store	No. Acquisition by Jeronimo Martins (Bieronka) in 2003
Dohle (HIT)	Germany	1993	Green-field investment	Hypermarket	No. Acquisition by Tesco Plc (Tesco) in 2002
Royal Ahold NV (Allkouf, Hipernovafrom 1998)	Netherlands	1994	Green-field investment	Hypermarket	No. Acqusition by Carrefour SA (Carrefour) in 2006
Royal Ahold NV (Albert)	Netherlands	1994	Green-field investment	Supermarket	No. Acquisition by Carrefour SA. (Carrefour Market) in 2006
E. Leclerc (Leclerc)	France	1995	Green-field investment	Supermarket/ hypermarket	Yes
Groupe Casino (Geant)	France	1995	Green-field investment	Hypermarket	No. Acquisition by Metro AG (Real) in 2006

Metro AG (Real)	Germany	1995	Green-field investment	Hypermarket	No. Acquisition by Auchan Group SA (Auchan) in 2014
Dansk Supermarket A/S (Netto)	Denmark	1995	Green-field investment	Discount store	Yes
Rewe Zentral AG (Minimal, from 2006 Billa)	Germany	1995	Green-field investment	Supermarket	No. Acquisition by E. Leclerc (Leclerc) in 2010
Tesco Plc (Savia, from 2006 Tesco Extra)	UK	1995	Acquisition of Savia, Minor and Madex	Supermarket	Yes
Tengelmann Group (Plus Discount)	Germany	1995	Green-field investment	Discount store	No. Acquisition by Jeronimo Martins (Biedronka) in 2007
Jeronimo Martins (Jumbo)	Portugal	1996	Green-field investment	Hypermarket	No. Acquisition by Royal Ahold NV (Hipernova) in 2002
Metro AG (TiP)	Germany	1996	Green-field investment	Discount store	No. Acquisition by Jeronimo Martins (Biedronka) in 1999
Internationale Spar Centrale BV (Spar)	Netherlands	1996	Franchising	Minimarket	Yes
ITM Entreprises SA (Intermarché)	France	1997	Franchising	Supermarket	Yes
Jeronimo Martins (Biedronka)	Portugal	1997	Acquisition of Eletromis (Biedronka)	Discount store	Yes
Carrefour SA (Carrefour)	France	1997	Green-field investment	Hypermarket	Yes
Tesco Plc (Tesco)	UK	1998	Green-field investment	Hypermarket	Yes
Auchan Group SA (Auchan)	France	1998	Green-field investment	Hypermarket	Yes

Comptoirs Modernes (Stoc, Miko)	Frannce	1998	Green-field investment	Supermarket	No. Acquisition by Carrefour S.A. (Champion, from 2006 Carrefour Market) in 1999
Groupe Casino (Leader Price)	France	2000	Green-field investment	Supermarkets	No. Acquisition by Tesco Plc (Savia) in 2006
Schwarz Beteilligrungs GmbH (Kaufland)	Germany	2001	Green-field investment	Supermarket	Yes
Auchon (Elea, from 2009 Simply Market))	France	2002	Acquisition of ReweZentral AG (Billa)	Supermarket	Yes
Schwarz Beteilligrungs GmbH (Lidl)	Germany	2002	Green-field investment	Discount store	Yes
Penta Investment (Żabka) – investment fund	Czech Rep.	2006	Acquisition of Żabka	Minimarket	No. Acquisition by Mid Europa in 2011
Carrefour Group SA (Carrefour Express)	France	2007	Franchising	Minimarket	Yes
Penta Investment (Freshmarket) – investment fund	Czech Rep.	2009	Franchising	Minimarket	No. Acquisition by Mid Europa in 2011
Aldi Group (Aldi)	Germany	2009	Green-field investment	Discount store	Yes
Metro AG (Odido)	Germany	2011	Franchising	Minimarket	Yes
Mid Europa (Żabka)– investment fund	UK	2011	Acquisition of a franchising chain Żabka from Penta Investment	Minimarket	Yes
Mid Europa (Freshmarket)– investment fund	UK	2011	Acquisition of a franchising chain Freshmarket from Penta Investment	Minimarket	Yes

Franmax UAB (Aldik)	Lithuania	2011	Acquisition of Aldik	Supermarket	Yes
Anciens Etablissements Georges Schiever et Fils SA (Bi1)	France	2015	Acquisition of some of the Auchan Group stores	Hypermarket	Yes

Source: Authors' own work based on websites of the international retail companies operating in the Polish market. Table includes retailers capturing at least 0.10% share of the grocery retail market in at least one year of the studied period, 2006-2015 (*Euromonitor - Global Market Information Database,* 2006-2015).

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Methodology and Strategies for Companies in the Process of Internationalization

José G. Vargas-Hernández
Alejandro Osuna Zatarain

ABSTRACT. This research by Vargas-Hernadez and Zatarain aims to provide guidance to companies seeking to initiate a process of internationalization, discusses possible strategies and methodologies that can be followed to succeed in this process. It is based on a case study focused on Inditex group, and although it is a descriptive study, it tries to give a clear focus to consider, on proven theories supported in addition to the strategic and operational structure of our case study. Our main results conclude in determining a variant strategy for each company, but international diversification can come from the same schema, which is a crucial part of business development, and its main strength should be good management skills.

KEYWORDS. Internationalization, strategy, diversification, development, management.

INTRODUCTION

The paper provides a corresponding international business development analysis. What this process entails and also tries to clarify is the basis for implementing this process in a business and being successful with it. Taking the knowledge gained from the study case, one of the most successful companies in the world, which, based on their strategies, has been developing around the globe, and see if these strategies are shown and can be applied to any company regardless of category.

The research that supports the internationalization processes of a company is considered vital because in today's global marketplace, it is increasingly necessary to know how to penetrate countries outside the home of the company, create value, and increase the chances of sustainability in a world whose demands anbd complexity are increasing.

The research was conducted with the aim to present a representative case of internationalization. It is on the company Inditex, best known for its brand ZARA, which is clearly an icon in the shape that it has developed its internationalization process, as it has a unique value

José G. Vargas-Hernández, Ph.D. is affiliated with University Center for Economic and Managerial Sciences, University of Guadalajara, Zapopan, Jalisco, Mexico and Alejandro Osuna Zatarain is affiliated with Faculty of Economic Sciences and Administration of Mazatlan, Autonomous University of Sinaloa, Mexico

Address correspondence to Dr. José G. Vargas-Hernández with University Center for Economic and Managerial Sciences, University of Guadalajara, Nucleo Zapopan, Jalisco, C. P. 45100 Mexico, E-mail: jvargas2006@gmail.com

and competitive advantage in logistics and distribution, on which it is hardly matched. This is not by chance, but rather results from an intense process of investigation of the markets where the firm intends to enter with its shops and from which has a profile set for its success. Because the firm can succeed in the world, its processes adhere to penetration in markets that are easier to master. This is just a preliminary investigation determined in each country.

Firms have expanded worldwide with remarkable presence and leadership in their fields, and some private practices have made them preferred by their customers, to keep them captive without realizing it. The purpose of a good marketing strategy is to conduct research, to get to know their customers well, and in some cases make changes and modifications in some countries for cultural and legal-political reasons.

JUSTIFICATION OF THE RESEARCH

It has been determined to study the particularities involved in the process of internationalization of a company, and it was decided to take the case of Inditex group, who has managed to make its brand "ZARA" recognized worldwide. The firm has an accelerated international diversification strategy in markets of several countries, developing a single management capacity. In addition, it has taken this study to compare if these schemes are applicable to any company that intends to initiate a process of internationalization.

The following research is based on the decision of internationalization of companies. It justifies the efforts to develop and improve this factor in the expansion of a business, starting from international marketing, which is a major factor in the commercial development of any growing economy starting with their companies. Thus, since the time of globalization that exists today, where competition crosses borders with ease, when there is a company capable and willing to internationalize, an investigation becomes a necessity.

This results in greater security by expanding businesses outside their borders for all possible scenarios the firm may face, and therefore precautions are taken and the opportunities are known. It is clearly an invaluable advantage, as the investment in researching the new market and the possible development of the company does not compare with the wealth of information that will be obtained from the internationalization process. Thus, any potential problems can be prevented that could be disastrous for the company.

Research Objectives

The research proposed here has a general objective to analyze the overall level of international diversification and management capacity needed for a sustainable business development, based on the study of Inditex.

To achieve the proposed overall goal, the following subordinates and specific objectives are needed. International diversification is to be measured by the relationship of the business units, from the perspective of brand positioning and sustainability, as success factors. Additionally, a good management capacity, measured by the development of its core competencies, will produce effective business strategies depending on brand positioning and support services.

Research Questions and Hypothesis Development

To solve the research problems, we raise the following questions: What is the level of international diversification, and what is the capacity of Inditex management that has based its managerial decisions on its business development? What is the level of international diversification Inditex group has achieved so far through their branding and sustainability efforts? What is the management capacity that Inditex group has based on their branding and sustainability?

Table 1. Description of Variables and Indicators.

Variable	*Variable name*	*Vaariable description*	*Indicators*
X	Business development	As the company develops its brand in the market which eventually leads to expansion (Verdin & Van Heck, 2007).	(X1) Brand positioning and sustainability
Y1	International diversification	As the company diversifies into new markets beyond the borders of their country of origin more quickly and sustainably (Herrera, 2005).	(Y1) Interrelated Business Units
Y2	Manageability	This is what gives us the facility to handle all items in our company and is essential to internationalize (García, 2000) developed Core Competence. Source: Made by myself.	(Y2) Developed Core competencies

Source: Own elaboration.

Hypothesis

Business development has a supportive relationship with international diversification and is based on good management capacity. As specific hypotheses: The branding and sustainability are supportive factors for international diversification, measured by the relationship of the business units. The branding and sustainability are factors of support for management capacity measured by the development of its core competencies (see Figure 1).

Scope and Limitations

The world economy has been transformed in recent decades by international business expansion. The development of various market entry strategies has mainly occurred through three distinct modes: exports (passive involvement), venturing/strategic alliances (semi-active involvement), and foreign direct investment (active involvement). That is the reason why it is vital to know the reasons why companies go international, and how they make the decision to enter new markets through trade or outward through foreign direct investment (FDI).

Currently there are basically two streams of research. The first is those based on general equilibrium models, within which companies make the decision to internationalize choosing either to export, venturing/strategic alliances or to invest so as to supply the external market. The second research stream is based on partial equilibrium models. In this case, the decision of how to start the internationalization process is made.

Since this research is descriptive in nature, it mentions various theories and models, and tries to consider a clear line of development. No model is established or has empirical certainty, because it is based on the case study and outstanding literature on the subject, which

must take into account that many variables may be different in nature from the practice of business, and in the various sectors or markets in which they are developed.

CONCEPTUAL FRAMEWORK

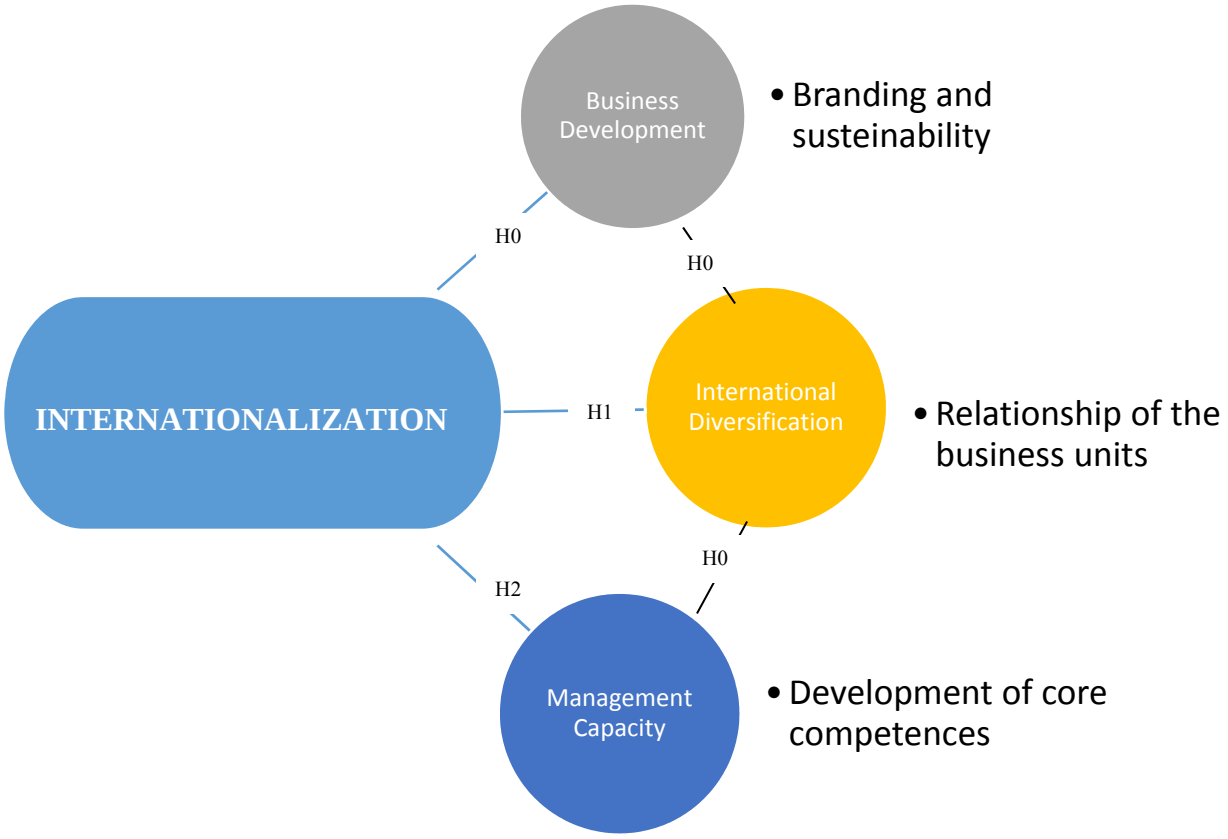
In the field of marketing study, there are eight possible lines of research in the international arena (Li and Cavusgil, 1995):

A. Studies Dealing with International Marketing Environment. Research that investigating the impact of economic, cultural, political, and legal activities in the international marketing arena. The comparative studies of marketing systems analyze the similarities and differences in marketing practices in different countries and regions.

B. International Marketing Management. Studies that focus on issues such as international market segmentation, product policy, price, communication and distribution, entry strategies, expansion strategies, investment decisions, and parent- subsidiary relationship.

C. Prospects for the Internationalization Process. Studies exploring the behavior and attitude changes experienced by companies in their internationalization process.

Figure I. Research Construct



Source: Own elaboration

A. International Marketing Research. Contributions to the methodology of research in the international context.
B. Studies of Buyer Behavior. Annaul buying behavior in international markets.
C. Study of Interactions. Originally this research was concerned with the analysis of the interaction between suppliers and buyers. Later it has extended its scope to the study of the relations of cooperation and partnership between firms in international markets.
D. Perspectives on Globalization of Markets. Studies analyzing how the rapid development of telecommunications and transportation and the growing convergence on the needs and tastes of consumers are analyzed affecting the design of strategies by international firms.

Business development refers to a set of activities as the company develops its brand in the market place, which eventually leads to expansion (Verdin & Van Heck, 2007); or international diversification tells us how the company is diversified into new markets beyond the borders of their country of origin more quickly and sustainably (Herrera, 2005). At the same time, management capacity is what gives the facility to handle all items in the company, and it is essential to internationalize the firm (García, 2000).

Here the conceptual framework will be developed for the study, with special consideration given to the theory of internationalization and the relevance of specific company assets. To do this, it begins by exposing the distinctive features of the theory of internationalization; the global strategy should identify customers and target segments, their specific needs, and the geographical configuration of the segments. It is necessary to establish marketing programs for global segments and decide a portfolio of businesses and products on an international basis (Garcia, 2002, p.32).

The classic explanation of the internalization of activities is based on achieving greater control over them, which is only acceptable in terms of efficiency, from a certain volume of activity that generates economies of scale. Otherwise, a better solution would be contracting the market. However, a transaction is internalized only when the benefits outweigh the costs of internalization. It is saving transaction costs, which are high in the market under uncertainty, information asymmetries, and lack of contractors, bounded rationality or specific assets, favoring the risk of opportunistic behavior, which together with the frequency of the transaction cause internalization may be a better solution than what the market forces dictate.

From this perspective, it is noted that the greater the influence of those factors that enable the opportunistic behavior of the companies with which exchanges are maintained, the greater the transaction costs which the company must incur to protect their rights and, therefore, it prefers to use input methods that involve a high degree of control. The most obvious cases occur when intangibles such as technology or know-how (Buckley & Casson, 1976), or specific assets (Anderson and Gatignon, 1986) are transferred.

Based on the eclectic paradigm of Dunning (1980), it is the known benefits that bring a company to develop internationally. This paradigm also takes advantage of these benefits, also called OLI theory, which refers to these important points: Ownership or property, location, and internationalization. This model goes beyond the theory of internationalization and focuses the analysis on certain values to succeed.

Besides, it holds and tests the following key assumptions:

The competitive advantage of a country's enterprises in servicing foreign markets is determined both by the ownership advantages of the enterprises relative to the enterprises of

other nationalities, and the location advantages of the countries in which they produce. Additionally, the competitive advantage of companies from a given country to foreign service markets is determined by both the advantages of business ownership in relation to companies from other countries, and the location advantages of countries in which they occur, in relation to the other countries." (Dunning, 2002, p. 84).

It is stated that the internationalization of enterprises is a complex phenomenon. The analysis from different points of view has created a vast body of knowledge based upon an extensive literature. This helps to enrich the scientific debate and has produced a certain ambiguity in the presentation of the subject matter.

Depending on the position taken, it can be differentiated between microeconomic and macroeconomic perspectives and corporate or international strategy theory perspectives. This study uses precise definitions of economic terms for better understanding. Microeconomics is defined as the analysis that deals with the behavior of individual elements of an economy, such as the pricing of one product or the behavior of a single consumer or company. Macroeconomics is the analysis of the behavior of the economy as a whole with respect to the production, income, level of prices, foreign trade, unemployment, and other economic variables (Samuelson & Nordhaus, 2002).

Under the first group, microeconomic and macroeconomic perspectives, the theory of international trade is covered. Under the second group, business perspective or theory of international strategy is looked at. Here, a distinction is made between the theory of internationalization of the company and the theory of multinational companies, in addition to direct investment abroad. The theory of multinational corporations, foreign direct investment, and the theory of international trade are more related to an economic approach, while the theory of internationalization of the company leans towards organizational focus.

Table 2. Theories of Internationalization

Perspective	*Micro economic*	*Business perspective International strategy theory*	
Theories	International trade theory	Business internationalization theory	Multinational business theory and foreign direct investment
Economic orientation	**x**		**x**
Organizational or directive focuses		**x**	

Source: Larrinaga (2005)

For the internationalization of a company, it must develop an entry strategy, which is usually composed of several individual decisions. Among these are the choice of products and the markets for which they are intended, objectives and goals to be achieved in the target market, how to enter the market, the marketing plan that will be utilized for market entry, and a control system that will be used to evaluate performance in the target market (Root, 1986). The entry strategy chosen must be adjusted to the

resources available to the company, to the objectives that have been set forth, and to the level of demand of the target market.

Different models are used and taken into account. But they all have to establish that these are variables that depend on the strategy that the company will follow, even if it has established a methodology prior to undertaking internationalization.

One of the most useful and important features of marketing is to plan with a guarantee of success for the future of the company relying on the responses offered to the market demands. The environment in which the company operates is constantly changing and evolving. The success of the company depends largely on the ability to adapt and anticipate these changes. It should be able to understand to what extent and how future changes experienced by the market will affect the company and to establish the most suitable strategies and tactics to benefit the company. To do this, the variables to be considered in a strategic marketing plan may be similar in any company, but the company should pay special attention to concepts that create a better understanding of the new market that the company intends to enter. Some of these variables can be:

A. Segmentation of markets.
B. Selecting the markets.
C. Competition analysis.
D. Analysis of the environment.
E. Audit of marketing.
F. Positioning value.

But the firm should never lose focus, because it has to build plan on an international strategy, and this will make some analysis more complex. When companies move in a highly competitive market, they require continuous analysis of the different variables through a SWOT analysis. Not only internal company analysis (strengths and weaknesses) but external market analysis (opportunities and threats) will be undertaken. In this context, according to the resources and capabilities they possess, companies would develop appropriate marketing programs and strategies that allow them to adapt to the market environment so that they gain competitive advantage.

METHODOLOGY

The problem of internationalization of companies is dealt with in light of the exhaustive review of the past literature. Various methodologies are developed to reinforce the ideas and outstanding theories leading to solve the specific internationalization issues at hand. For instance, Leandro (2009) showed several central ideas and how theories from various sources are modeled to provide guidance to the researchers of the reasons how companies internationalize. Also it provides a clear distinction among different types of international companies that exist. These are exporters, multinational, transnational, or global companies. It also takes into account several theories that are virtually essential when entering a process of internationalization. These theories are listed and their main tenets are mentioned.

The classical theory focuses on the importance of comparative advantages between countries. The product life-cycle theory focuses on the analysis of the interdependence between the stage of product life cycle and internationalization. The Uppsala model focuses on the study of the internationalization process of companies. The Porter paradigm evaluates the analysis of the advantages of location in the country of origin. Strategic theory focuses on the analysis of the interdependence between the stage of product life cycle and internationalization. Dunning's (2002) Paradigm Shift theory focuses on the classification of the factors in internationalization process, ownership advantages, and internalization location

This work is very clear in establishing the differences between each type of international business, and it marks the highlight of every

type of company in terms of concentration, adaptation, and learning, taking into account the lowest to the highest degree of internationalization, and considering different entry modes from exporter through international, multinational, and global.

Another research reviewed by Ricard and Llopis (2014) was a clear attempt to clarify the key points to initiate the Spanish companies with their internationalization processes, given the economic crisis at that time the country was experiencing. This research addresses some of the historical events that Spanish companies have experienced particularly in the processes of internationalization. Additionally, company success stories and the operational methods used are discussed.

The paper mentions that companies should have clear goals to be achieved with internationalization and have arguments to face this process. This will lead to such opportunities as business recovery, optimization of global presence, and the time to internationalize, more and better opportunities for mergers and acquisitions. The challenges are handling differentiation in the country destination, consumer fragmentation, managing people of different origins, and local competition in the country. After establishing the criteria for internationalization, we define two different types of approaches: reactive and proactive.

The reactive approach is defined as opportunistic internationalization and acts according to such factors as:

A. Unbalance the fall in domestic demand.
B. Output excess production.
C. Diversify risks.
D. React to the entry of foreign competitors.
E. Achieve saturation of the domestic market.

Then, there is proactive approach of internationalization strategy which creates global value and acts based on the factors explained below:

A. Find less mature markets and with more growth potential.
B. Exploit the opportunities and attractiveness of emerging markets.
C. Leverage economies of scale and scope.
D. Move certain activities and even entire parts of the value chain to more competitive locations.
E. Acquire and / or apply new skills and resources.
F. Learn from the characteristics of different customers and markets, the capabilities of global competitors in the industry or sector, and even the diversity of the equipment itself in global companies.

After taking into account different strategies for creating global value, among them is the triple triangle A, which considers three key factors. These are:

A. Adaptation (accommodating differences). Adaptation strategy seeks to increase revenue and increase market share by adapting the products or services of the company to the local market.
B. Aggregation (overcoming differences). The aggregation strategy aims mainly at economies of scale by creating regional operations and sometimes global.
C. Arbitration (exploiting differences). Arbitrage strategies seek to exploit differences between national or regional markets, to turn them into opportunities to optimize the resources available.

It is noteworthy that the main case study "ZARA" uses a strategy of Arbitration in its operations. This strategy is best suited for vertical or functional organizations that follow the movement of products or orders through their organization, as in the case of ZARA's sophisticated logistics systems and commercial export handling in all its stores worldwide. Also, it is very important to consider the internationalization strategy and align it with the business

strategy for development in general, because one thing invariably depends on the other, and if they are not aligned this can lead to great difficulties in the process of internationalization and business development. This is the main recommendation in order to know how successful the company can be to internationalize: Is the strategy based on the competitive advantage of the service or product? We should also consider the strategy among four archetypes. These are participant, adapter, creator, and assimilator.

The article notes the importance of prior analysis to meet the strategic goals of the company abroad, and their capacities and resources to deal with this process. Keep in mind that all companies face obstacles that can be overcome to internationalize, but to neutralize them, they should be identified correctly. There are three different types of entry barriers. These are barriers of country, internal market barriers, and organizational barriers. There is a direct relationship between the risks and the chosen form of internationalization; some barriers are more common in organic growth strategies and other inorganic structures. Julia Martin Armario (2003) investigated the relationship between the degree of market orientation of the company and its development and involvement in international markets, and this work can be framed in the research that studies perspectives on the process of internationalization.

Theories about the internationalization of the company make up this thesis. There are also particular models upon which these theories are based, and they will strengthen their claims, which are mentioned here:

A. **The economic approach**. This approach is called input modes literature, whose stated objective is to analyze the proper choice of input mode from a company in a particular foreign market. The make of the theory of internalization, in turn, is based on two pillars: the theory of transaction costs and the eclectic paradigm.

B. **The sequential approach**. This approach encompasses a series of models based on the common assumption that the internationalization of the company evolves sequentially and consistently along an organizational continuum (Turnbull, 1987), through a series of stages, varying in number and nature from one model to another. The most prominent sequential models are the model of Uppsala, the theory of stages of development, and the innovation model, currently known as one sequential internationalization process theory.

C. **The strategic approach.** The basic premise of this approach is to maintain a balance between external and internal factors of the organization, leaving behind a deterministic view and admitting the existence of a continuous connection between the company and its environment (Alonso, 1993).

D. **The focus of the theory of globalization**. This theory is based on the idea that all sectors of activity are in any position on the continuum defined by two extreme types of sectors: multi domestic and global industries and sectors (Porter, 1982, 1986).

E. **The network approach**. Under this approach, the markets are set up as networks of relationships between organizations (Johanson & Mattson, 1988), so that the degree of internationalization of the network in which the company is involved has strong implications for the internationalization of the same.

F. **The focus of management.** Under this heading are reviewed a number of different types of jobs that share the idea that the top management of the company is the main factor explaining the process of internationalization, where the model follows international adaptation and also draws on internationalization international start-ups.

G. **The internationalization of the company from the theory of resources.** Internationalization strategies involve the identification, protection, and exploitation of specific assets and capabilities of enterprises so as to achieve positions of competitive advantage in foreign markets.

Method

This research is supported by methods and theories tested in common business practices of most companies that have already ventured into internationalization processes. A number of companies have developed through trial and error a variety of approaches and practices for better international business development and adaptation to global markets. It is considered a qualitative approach because internationalization is geared to processes and guidelines related to culture, beliefs, politics, and individual factors in each country, in addition to being quantitative, relying heavily on the different perspectives that managers give to these processes.

The context of the research is designed under standards applied to case analysis method, and it gives some certainty to each method that should be taken into account in the process of internationalization. Specifically, the study is developed in the context of the case study Inditex. This case is the pacesetter to analyze, assess, and verify certain strategic and operational theories. But of course, as in every step of this process, every decision must be carefully studied.

The research questions and hypotheses have focused on reaching a satisfactory internationalization process, though the initial approach may seem ambiguous. This will lead to development of some hypotheses for business development, international diversification, and manageability.

To conceptualize many of the approaches generated by the proposed models, many similarities and differences between them, and many advantages and disadvantages were found, but this does not mean that some are better than others. It should also define the theories in relation to a better process of internationalization, so that they are applicable and fully operational, i.e., each postulate is perfectly compatible with the operation of a business.

The research design is descriptive in nature, as already mentioned, not experimental, so they have to support the case study and bibliographical research which has found support for the hypothesis. It preceded progressively explaining, evaluating and generating their views for clarity to a complex issue that certainly always created controversy among different views and the varied theories. During the analysis of Inditex group, their management skills have served as a guide to better understand the process which has led Inditex to become one of the main pillars of the textile industry in the world.

Applied Research

For this research work, a case study method is used to support the hypotheses and fulfill the research objectives raised. The case also is analyzed thoroughly to confirm or disprove the theories. The analysis of internationalization of Inditex group has posed a particular management model, with features such as innovation, adaptability, creativity and quality design, combined with a rapid response to demand, which were key for its international expansion.

In recent years, Inditex has maintained an average growth rate above its competitors, reaching sales in 2011 of 13,793 million Euros, and it increased to 15,946 million Euros in 2012. Vertical integration is a priority in the Inditex business model. Its adaptable structure to what the customer demands, coupled with efficient logistics and distribution through its own stores complete this customer-oriented integration process. As a premise, this process includes the ability to adapt to customer require-

ments in the shortest time possible. The business structure is focused to reduce stock inventories and reduce delivery times of products. Products in transit can be detected with great efficiency and speed. Additionally, fashion products make their way each day around the world and are able to adapt to what consumers demand, with the possibility to bring these collections to stores in a short period of time. The process of delivering Zara end products from design to store reach materializes in about 15 days, while competitors such as Gap and H&M need an average of nine months.

The investment made in marketing by the company is considerably lower than the competition at an average of 3% or 4%, while Zara reduced this figure to 0.13%. This is due to investment in merchandising in stores, locating fashion items in strategic places such as shopping centers in cities with high population concentration and areas where the influx of potential customers is high, both aimed at customer areas with a higher purchasing power for street stores.

In a period of about four years, a reform of the stores is undertaken. Through the help of this model, the parent company has opened stores around the world, not just Zara, but also some of the other stores of the group. The company culture facilitates the opening of new stores with ease. Prices are determined depending on the cost of distribution and marketing; the prices are fixed from the corporate headquarters from where products are distributed.

Another factor to consider is that by not replenishing the stock the customer knows that he has to buy the item because it may run out in a week's time and the product may not be replaced, creating an out of stock situation. This represents a stimulus to the customer to complete the purchase of product(s) as well as creating the need for customers to go to stores to see new products displayed which create constant renewal. Zara's manufacturing facilities produce and distribute new merchandise available at all points of sale in a period of fifteen days. About 50% of the products are produced in their own factories; the rest is purchased from other factories. This means greater control for production planning. The logistics system in place allows production to move smoothly in the supply chain system. The goods are delivered to the stores in Europe in an average time of 24 hours and to zones of America and Asia-Pacific in a maximum of 48 hours.

To operate almost entirely in "just in time" does not require a large storage capacity, yet it has extra capacity to cover possible peak demand. Transport is by truck for most of the European countries with the exception of islands and Nordic countries, where product deliveries are made by plane.

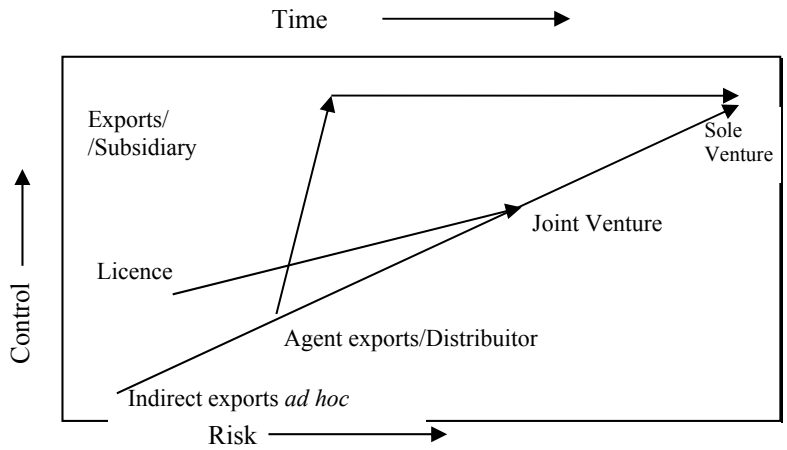
A. Case Description: The context of the research through the study of Inditex Group.

Inditex Group, one of the leading fashion retailers in the world with eight commercial formats—Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home, and Uterqüe—boasts 6,058 stores in 86 markets. The Inditex Group brings together more than one hundred companies associated with the different activities in the business of designing, manufacturing, and textile distribution. The uniqueness of its management model, based on innovation and flexibility, and its achievements, have made Inditex one of the biggest fashion retail groups in the world.

The way of understanding fashion as creativity and design quality and quickness to answer market demands has enabled rapid international expansion and an excellent response from the commercial proposal of the different chains. Founded in 1963, the first Zara store opened in 1975 in La Coruña (Spain), a place where the group started its activity and where the company headquarters are located. Its stores, always situated in prime locations, are

present in more than 400 cities in five continents. Inditex growth is reflected in the increasing number of workers they employ, which stood at 120,314 at year-end 2012 (Inditex, 2012). Based on the principles of Root (1986), and in contrast to Spain, where all the shops are acquired and managed by the company, in overseas markets, there are three different ways to enter the market: its own subsidiaries, joint ventures, and franchises. It usually uses only one of the entry strategies, although at times the company has changed from one mode to another. Zara only expands to other markets with sustainable growth and low business risk through its own stores (see Figure 2).

Figure 2. Changes in the Entry Form for a Manufacturing Company.



Source: Root (1986, p. 18)

B. Analysis of data on the internationalization of Zara.

According to Castellano (2002), Zara began to open to the world in 1988 when it opened a store in northern Portugal, specifically in Porto. In 1989 Zara opened its first store in New York, and in 1990 its first store in Paris. Between 1992 and 1997, the brand had been introduced at a rate of one country per year, opening stores in seven European countries, the United States, Mexico, and Israel. Since then it began to expand its stores faster. Its latest expansion is focused on Eastern Europe, ranging from Poland to the Asia-Pacific, having started in Hong Kong and Singapore.

To expand the brand, Zara choose countries which are similar to the Spanish market and at a maximum level of economic development. This fact allowed entering the market with greater security. Before entering into a foreign country, macroeconomic and microeconomic analyses are performed. The first analysis focuses on the future evolution of stores with respect to taxes, wages, or prices. The microeconomic analysis is based on local demand, the existence of competitors, as well as the search for suitable locations to open stores. The price adjustments of Zara are made by estimating costs, such as distance, tariffs, duties, taxes, etc., considering the possibility of entering a market with a payback of one to two years after opening the store.

The key to success and growth was achieved by Inditex as a result of the uniqueness of its management model which is based on innovation, flexibility, creativity and quality design, vertical integration, and being agile to market demands. This model of flexible and

integrated management can be explained as follows:

1) Design.

Unlike other competitors in the fashion industry, Inditex creates proper collections to be presented on the catwalk. With the ultimate aim of bringing fashion to ordinary people and considering that success lies in understanding the desires of their consumers, Inditex designs its models from the information obtained in two ways. On the one hand, it has a team of over two hundred designers, bearing in mind the image of each brand of the group, attend presentations on the catwalk and visit places frequented by its target audience, to finally develop future collections of the group.

In addition, the store staff performs the work of reporting on the degree of acceptance of each commodity and future trends. The demand for each old model and the opinions of the customers is observed. Thus, the store is not only a commercial establishment, but also the starting point to design fashion to make in the coming period. The reactions of the customers are the impulse that triggers the process of creating new garments.

2) Procurement.

Part of the necessary materials are produced by group companies located in different countries in Europe, Asia, and Africa. The rest (about 60%) is acquired through numerous national and international suppliers. The goal is to have a wide range of sourcing that makes available all types of materials needed at an affordable price. This approach creates the maximum possible bargaining power.

3) Production.

As is the case with the supply, the production process is split approximately 50% between group subsidiaries and outsourcing.

4) Logistics.

The characteristics of the logistics process (supply chain management) are a major source of competitive advantage of the Inditex group. Although there is a headquarters for the central services of the group, each business logo has been created by its own logistics center. Both the central services of the group, as the main logistics center of Zara, are located in Arteixo, La Coruña, and measuring 500,000 m^2. In 2003, it launched a second logistics center for the Zara chain in Zaragoza, thus equipping itself with the necessary infrastructure to support the growth resulting from the expansion plans. The chosen location offers excellent infrastructure. This logistics platform in Zaragoza has direct access to the railway network and highways, in addition to being located next to Zaragoza airport, which increases the possibilities in handling international cargo.

In the case of the Pull and Bear chain, in 2001 the company moved its facilities and logistics platform, initially in Arteixo, in the town of Naron La Coruña, to meet the expected growth in the coming years. Also in the case of Stradivarius, growth and international expansion has led to the relocation of its headquarters and logistics center from Sabadell, Barcelona, to new premises located in the town of Sallent de Llobregat, Barcelona. And finally, the central services and related logistics centers of Massimo Dutti, Oysho, and Bershka are located in the town of Tordera, Barcelona.

These logistics centers act as a connection between the shops and factories, allowing on the one hand, a rapid flow of information from the first to the second and, on the other hand, a rapid flow of goods from the latter to the former. The implementation of a continuous system of "orders and deliveries" of goods allows the correct implementation of a "Just in Time" system, developed through a "joint venture" with the Toyota group. This system stores have a minimum stock of goods, thereby reducing storage costs and inventory. According to evolve the sales of each model, the orders are made to the logistics center.

With this system, a highly flexible production system is achieved. Instead of mass production of each model, the production process is adapted to the requests of the stores and therefore to market demand. Production is

planned in biweekly periods, varying the length of the production process 2 to 3 weeks. Similarly, this flexibility allows, in the case of some of the business signs, collections to be renewed several times in the same season.

5) Marketing.

Inditex believes that the best way to promote its products is through the design of its stores. Therefore, the company spends enormous amount of time in identifying store location and places great value on creating a very caring and friendly environment for the consumer. Unlike its main competitors, none of the logos of the group utilize advertising campaigns in mass media. Such campaigns are limited to sales periods or to communicate the opening of a new facility. It is considered that high spending on promotion hampers the ability to offer its customers competitive prices

C. Business development

The analysis should place a special emphasis on issues of management, logistics, and systems. Marketing Inditex group is the factor that integrates everything already mentioned. As for the corporation, it is not located in an apartment or a part of the process of the company, but the marketing is imbued in every aspect of the organization and is the transverse axis that keeps the company closer to its customers from its factories to its stores. The essence of running a business internationally, with an idea similar to that of Inditex marketing, is undoubtedly a key success factor in any sector.

Table 3. Comparison between Theory and What Happened in Inditex

	TEORIA	INDITEX
Business development	The company develops market and eventually finds the need to expand. This is indicated by its branding and sustainability.	Founded in 1963, the first Zara store opened in 1975 in La Coruña (Spain), the place where the group started its activity and where the company headquarters are located. Having positioned in the local market, its remarkable development created the need and opportunity for overseas expansion that began in the year 1988.
International diversification	The company is diversified into markets beyond the borders of its home country in a rapid and sustainable manner, because a good interrelationship of its business units established.	Zara began to open to the world in 1988 when it opened a store in northern Portugal. Inditex currently grows about three hundred stores per year in more than fifty countries. In the center a pilot store is developed, a team

		travels to each store to implement the new model. Thanks to this model, it has opened stores around the world, thanks to the strong interrelation of its business units.
Management capacity	Excellent management skills are essential for a company to handle the process of internationalization. It reaches a point of great efficiency, achieved by fully developing its core competencies.	Inditex is the model of management excellence in many fields of business. The key to the success and growth achieved is in the uniqueness of the management model developed by Inditex, based on innovation, flexibility, creativity and quality design, vertical integration, and being agile to answer market demands. These are core competencies that have been known by the company to successfully develop; thanks to that, today it is a role model in the process of internationalization.

Source: Own elaboration

CONCLUSIONS AND RECOMMENDATIONS

It has been concluded that Inditex should consider a number of factors before deciding on taking the important step in the expansion of the company because it may represent a breakthrough opportunity, but also an inevitable doom if it does not have the skills before it begins the process of internationalization.

First, it has to be analyzed if it is feasible for the company to break into the global market, where the costs would not be too much. If the company eventually could replace the investment needed to internationalize, and if profits arrive in time and to the extent necessary to replenish any loss resulting from this process, it will be successful. Additionally, the company must make a thorough investigation aimed at discovering new markets in which the company will make inroads to find if these are feasible for business. Furthermore, the company management must know the estimated time for the return of investment in this new market, undertake a macroeconomic analysis to determine the development of countries that could install companies and microeconomics to know the economic potential prospects.

On the other hand, the firm should be aware of competitors and of political and cultural or ideological complications that could harm its brand or company, because in many cases the natives of some countries are reluctant to receive foreign companies. There is also the positive or negative attitudes of country consumers toward foreign companies.

It is recommended to test pilot programs depending on the company and implement the best suited programs of distribution, logistics,

and company service. Also taking into account all of the internal and external factors that may affect the proper functioning and development of the process internationalization, an ideal marketing and supply chain management system may be put in place. It is stated that internationalization is a viable business development option, because it generates greater value and diversification in international markets and creates a backup against possible crisis.

With regard to the initial hypothesis, after taking into account all the data that has been investigated, it can be confirmed these hypotheses, since it has been found through research and case study to be a business development that generates branding and sustainability. Possibly it depends on diversification into international markets and good management skills, which in turn can be measured with a good relationship between the business units, as already established and are developing core competencies of the company.

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JOURNAL OF EUROMARKETING

Enlarged Europe is playing an increasingly more important role in the global economy. The purpose of the Journal of Euromarketing is to meet the needs of academics, practitioners, and public policy makers in the discussion of marketing issues pertaining to Europe and European countries' trading relationship with other nations. The purpose of this journal is to increase our understanding of the strategic planning aspects of marketing management in Europe. As well, marketing and international business aspects of the trading relationship between European and foreign firms are also explored conceptually and analytically. The unique position of the region provides fascinating reading material for practitioners, public policy makers and academicians. The articles submitted to the journal create a forum whereby a conceptual understanding of the European markets and marketing systems be operationalized, analytical insights obtained as well as the past, the present, and the future of European marketing be highlighted.

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d) The method by which European marketing institutions are linked together into viable and coherent business systems.
e) The type of environmental factors prevailing in different European countries of the region which force changes in the marketing structure of the area countries and industrial sectors
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Aims and Scope. The *Journal of Euromarketing* aims to meet the needs of academicians, practitioners, and public policymakers in the discussion of marketing issues pertaining to Europe. It helps to increase our understanding of the strategic planning aspects of marketing in Europe and the marketing aspects of the trading relationship between European and foreign firms. Today's Europe is going to play an increasingly more important role in the global economy, so the unique position of the region is certain to provide fascinating reading material. The *Journal of Euromarketing* fosters a conceptual understanding of the European markets and marketing systems, provides analytical insights, and highlights the past, present, and future of European marketing.

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