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The Impact of Proximity on Resistance to Foreign Ventures: The Cases of India and Japan

MARIE-LAURE BARON AND CLAIRE CAPO

Abstract

Over the years, a body of literature has developed that consistently shows how the liability of foreignness affects MNCs' performance. Institutional distance – regulatory, normative and cognitive – between the incomer and insiders has been identified as the likely source of the highest cost in doing business abroad. In this article, we draw on the existing literature but take the opposite perspective, looking instead at how various dimensions of proximity between local players increase MNC distance and foster local resistance. The study investigates two contexts and cases, India and Japan, at the time of foreign retailer entry and analyses the interplay between local proximity and local resistance. The analysis presents four dimensions of proximity, namely spatial proximity, relational proximity, identity proximity and inter-organizational proximity, which present the stiffest challenges to foreign retail ventures entering markets as newcomers.

Keywords: Liability of foreignness; proximity; resistance; retail; Asia

Introduction: Linking Liability of Foreignness to Proximity between Local Players

Multinational corporations (MNCs) attempting to do business abroad have recently reported facing greater difficulties and increasing local resistance to their presence. The interplay between incoming MNCs and local communities suggests the clustering of markets and the thickening of borders. The power of local resistance and the capacity of local players to gather and seek emancipatory changes thus depend on context and the existence of local proximities.

Distance is a well-established notion in the academic literature on international business. Geographical distance between the MNC head office and the local market is first understood as potentially increasing settling and management costs. The construct of the liability of foreignness (Zaheer 1995; Kostova and Zaheer 1999; Eden and Miller 2001)

proposes to embrace the disadvantages incurred by foreign firms over locally established firms. Following Scott (1995) and Kostova (1996), Eden and Miller (2004) link the liability of foreignness (cost) to institutional distance, which relates to more tacit and difficult to interpret market characteristics such as regulative elements, local norms, deep knowledge of the organisation prevailing on the local market or knowledge about the referential used in a given country. Institutional distance makes the legitimating process of the foreign company more hazardous.

Newcomers are particularly exposed to this institutional distance due to lack of knowledge of the market and the difficulties involved in acquiring tacit knowledge. Such distance may also increase when local proximity among local players is high. Thus, unfamiliarity and cognitive distance to local characteristics on the part of the foreign MNC, combined with proximity between local players, is liable to create the highest costs.

As this study focuses on the local context in order to understand the settings where resistance may be strongest, and because the cases involve retail MNCs, the authors avoid the usual formulation of viewing MNC difficulties in terms of distance when referring to the notion of 'proximity'. Proximity is indeed regarded as a key aspect of retailer-specific standard performance where shopping involves finding the right products, in the right place, at the right moment and building some degree of customer relationship. Relating resistance to proximity between local players in the context of retailing is also useful as such proximity increases the perceived distance between local players and the foreign entrant. Through a holistic overview of how proximities between local players may favour the expression of local resistance to MNCs, the settings of retail activities in India and Japan are explored in order to test how proximity between indigenous players interacts with local resistance and eventually feeds resistance.

The first part of the article discusses the relationship between proximity and resistance, and proposes a framework within which to interlink the two constructs in operational terms. It then explores the very challenging retail contexts of Japan and India at the point in time that two large retail MNCs entered their respective markets. The resistance encountered by these MNCs sets into relief how proximity is related to local resistance, and which aspects of proximity may be the most involved in building local capacity to resist MNCs in the sector.

Resistive Forces to Retail MNCs and Outcomes of Resistance when doing Business Abroad

Accounts from retailers, in both the press and academic literature, confirm that retailing is harmed by the phenomenon of resistance. Retail companies differ from standard manufacturers as retail relies on reticular organization. As such, it is particularly exposed to oppositional behaviour, which can crop up anywhere in the network. The retailer offers a wide range of products and brands and interacts closely with customers as well as with a wide range of suppliers. Retailer activities also rely on close relationships with local communities (local districts, towns, cities and regions) and service providers (for logistics, information systems or property). Retail MNCs are therefore particularly exposed to the liability of foreignness, as their activity depends on substantial local networking. Failure is inevitable when local resistance prevents foreign players from building the local links necessary for the proper functioning of their business model, unless they dramatically change their way of doing business and lose firm-specific advantages due to standardisation and scale economies on the process. Local resistance, in our view, is a subset of the institutional distance identified in the academic literature.

Institutional distance usually refers to local market regulatory or normative concerns that induce foreign MNCs to face mishandling costs. Institutional distance thus requires local adaptation on the part of the MNC. In taking local market dynamics into account, institutional distance requires more than local adaptation; it requires a complete reformulation of the business model. Since MNCs are not usually prepared for such strong change, the natural outcomes of resistance are failure or low performance. Local resistance is viewed as being driven by proximities between local players.

The institutional distance between the incoming retailer and the local market may be understood as the addition of a 'standard distance' between the home market and the host market (which requires standard adaptation), and the degree of proximity between local players, which favours the emergence of resistance and requires that more innovative and disruptive steps be taken.

Studies in political and economic geography, have referred to 'indigenous resistance' to qualify local players' resistance to retail MNCs in emerging countries (see Wrigley et al. 2005 on Global Production Networks). The management literature does not deal much with

the specific topic of resistance to retailers, but the work conducted on consumer resistance (Roux 2007; Roux 2014) provides a reliable framework to build on.

Resistance to Retailing

Resistance to retail activities makes sense if one considers the individual or collective stranglehold of retailers on given territories, the standardised formats and standard business models they use, or the economic power they wield. Following earlier contributions (French and Raven 1959; El-Ansary and Stern 1972; Hunt and Nevin 1972; Frazier and Summers 1984), the position of large retailers in the marketing channel has long been presented as powerful. Such iconic power, whether real or imagined, generates regular media attention and resistance from a variety of participants: farmers, manufacturers, wholesalers, local markets' workers and consumers.

Resistance is defined as the expression of an opposition to a situation perceived as being oppressive. Such a situation is notably associated with dispossession or with the fear of dispossession of resources or of identity (Roux 2007; Roux 2014). Early large retailer development in a given country occasionally induced identity or revenue dispossession-driven resistance from local players who, besides arguing over rent sharing, also felt de-skilled and sought to defend the survival of a way of living or particular form of relationship with their community. Resistance also develops in response to more ethical debates or values (Roux 2014), notably when players experience dissonance between the actual or anticipated experience of interacting with the retailer and individual knowledge and convictions (Festinger 1962). This happens when company behaviour appears to be inconsistent with individual beliefs (i.e. the Rana Plaza catastrophe in Bangladesh). Lawsuits, as well as the growing demand for certification, which may both be viewed as ways of resisting, are aimed at regulating the way companies do business (Hugues et al. 2008). Thus, while firms endeavour to achieve local legitimacy, resistance de-legitimises the MNC by targeting the actual or anticipated content of the offer or the processes used (ways of doing business as well as of sharing the rent) and, by extension, the organisation itself or its business model and marketing system (Roux 2014). Resistance will typically stem from local players' interpretations of the retail MNC's behaviour (Kotova 1999).

Coalition Force

Large-scale retailing deals with a wide range of players, in terms of both categories and numbers of players. Resistance, stemming from various nodes in the network, may build into a coalition force. Each category of player is potentially affected by the power of the retailer and is liable to lose identity or revenue (and may even disappear) when facing large retailer development. When purchasing directly from the manufacturer, large retailers eliminate wholesaler intermediation. When retailers build up on a large scale due to greater consumer access, they pressurize manufacturers' margins through one-sided negotiations. Working with large providers with industrial modes of production, large retailers endanger smaller players such as farmers or small store owners, leaving people with the feeling that they are de-skilled. When contributing to the structure of commerce and purchasing power in a given territory, retailer actions request local as well as national public intervention. Thus, challenging retailing activities goes far beyond consumer resistance: shopkeepers, wholesalers, manufacturers and farmers, as well as local and national governments are also liable to view themselves as threatened or challenged by large retailers and the values they promote. The perceived impacts of globalisation and the so-called 'Walmart effect' – which result in job losses, low pay, poor industrial relationships, poverty and city centre disruption – calls retail MNC legitimacy into question.

Forms of Resistance

Forms of resistance can be more or less visible and violent. Riots, demonstrations and boycotts (Kozinets 2002; Kozinets & Handelman 1998, 2004; Garrett 1987; Friedman 1985, 1999), rumour spreading (El Amir & Burt 2008) and lobbying are all modes of action. But players also have less visible ways of operating. Supplier resistance, where large-scale retailers typically need to build a wide local assortment of goods, may appear quite muted but nonetheless induces high negotiation and control costs due to opportunism (Williamson 1985).

Some of these local reactions may be subject to anti-competitive regulations, though these vary from country to country, change over time, and may suffer from poor or inconsistent enforcement.¹ This, in turn, creates opportunities for subversive local action. When resistance is scattered among several players, when it is not visible or when local partners are needed for ongoing business, there is little chance that the foreign company will be able to provide clear evidence of the anti-competitive behaviour or will try to enforce the law.

Resistance may also be felt in contexts with high inertia, which prevents the firm from setting up the correct connections. Hall and Soskice (2001: 8) make the distinction between liberal market economies (most Western economies) and coordinated market economies (Japan, Germany). In the latter category, firms depend on non-market modes of coordination with their environment, which entails relational or incomplete contracting, network monitoring and collaborative relationships. Such settings have specific institutions aimed at organising the collaboration; they feature strong business associations or cross-shareholding (Hall & Soskice 2001: 10), which may promote spontaneous resistance from local players.

Resistance Dynamics

Taking C. Katz's work (2004) as a starting point, Franz (2010) identifies three forms of indigenous resistance to large retailers that overlap and evolve in a dynamic manner: resistance, reworking and resilience. Resistance consists of a very conscious protest against the retailer or the large retailer system as a whole, whereas reworking induces 'ways of operating' where local players facing large retailers find ways to improve their situation. Even though motivation is not explicitly mentioned, resistance itself, when it proves successful, leads to a relief from retailer power or, in this case, foreign retailer power. Nationalist resistance, which targets foreign firms or foreign models of development, often stems from this kind of motivation. In a reworking process, resistance only partially challenges the existing system: resisting players re-appropriate elements of the model and subvert them in a way that improves their own situation. A variety of tactics used by players in the marketing channel stem from this reworking motivation, such as lawsuits by consumers, suppliers or competitors, the creation of alternative channels uniting some producers and consumers or, more subversively, the successful local imitation of imported formats. Regarding consumer resistance, Roux (2007) invokes 'moral resistance' to qualify a similar situation where consumers control unfair or improper behaviour and lead players to make some adjustments in their own business practices.

Resistance and reworking that yields relief from MNC retail power, improvement of one's individual situation or the mere moralisation of the market all require that resources are accessible to the challenging parties. Resilience is echoed by silent resistance, where isolated players have no resources (finance, networks or government support). While

cases of resilience or reworking relate more to a situation where standard (but evolving) institutional distance is encountered, legitimacy will be more difficult to achieve where there is resistance.

The overlapping of the different forms of resistance suggests that one form of resistance may evolve into another. This evolution derives from the dynamics of motivations and the dynamics of the available resources. It suggests that retailers, as targets of resistance, also build up dynamic responses to thwart opposition. As suggested by a number of scholars (Kostova et al. 2008; Salomon and Wu 2012; Zaheer 2002), overall distance between the home country and the host country does not only change from country to country, it also changes over time, mainly due to learning effects for the MNC. Evolving distance could also be linked to local players' learning dynamics.

Resistance, or a sum of less resistive instances, may require a complete questioning of the typical marketing mix and standardised format used by the retailer, beyond adaptation. Resistance could therefore lead to greater heterogeneity of markets and a greater variety of marketing models, while MNCs need to widen the range of responses to market requirements. Proximity between local players (consumers, professional bodies and citizens) could foster indigenous trade dynamics and induce resistance to newcomers stemming from any or all of the parties identified.

Interactions between Distance and Resistance from Players in the Retail Sector

Large-scale retailing was initially viewed as an obvious artefact of economic development. When a country developed, consumer purchasing power grew as a large middle class appeared, anxious to consume. Large-scale retail players perceived they were the answer to this situation. Markets in developing countries featured poor local competition and poor local offers in terms of products and services. Large-scale retailers could therefore enter with ease and local adaptation was mainly limited to accommodating local tastes by building a local assortment, adapting to local legislation and some adapting marketing practices (i.e. sales). Resorting to local supplies also contributed to legitimate foreign firms as they purchased locally. Foreign players could then duplicate their standard formats and processes. Local governments were keen to back such market entry, as was the case in France, where it was treated as a means to industrialise the marketing system and fight against inflation.

For three decades, apart from a few failures, international development seemed to be straightforward, thus consolidating expectations that the actual model of accompanying country development was sturdy. The main indicators to guide outward investment would typically include the level of local development, purchasing power growth or the size of the potential market.

However, this data can be construed differently. Apart from some exceptions, such as Mexico where Walmart is very dominant, many market shares held by foreign players abroad seem to be on shaky ground (Cortjens & Lal 2012) even when entry had been easy. Walmart withdrew from Germany, Carrefour withdrew from a number of Asian markets, and market shares held by foreign players in South American countries seem to cap. Large players, partly due to home market conditions and increased pressure on financial performance, have withdrawn from a number of locations. Besides intensification of local competition and financial concerns, resistance may also be stronger in a number of places.

Liability of Foreignness and Distance in Retailing Activities

The distance framework allows MNCs to assess the liability of foreignness as it stresses the institutional distance between the foreign company and the local market. The framework therefore takes the variety of business conditions across the world into consideration. While the cost of doing business relates more to market driven costs (Zaheer 2002), institutional distance relates to the regulative setting (government regulations, local rules), the normative setting (social beliefs and norms) and to the cognitive frame that refers to the local understanding and 'the way people notice, characterize and interpret stimuli from the environment' (Kotova 1999:314). These institutional costs arise from unfamiliarity, relational and discriminatory hazards.

Previous research on the liability of foreignness has led to significant breakthroughs in testing the role played by different variables (Kostova 1999; Eden & Miller 2004; Kostova 2008). First of all, institutional distance relies on the similarity/difference between regulatory, normative and cognitive institutions in two countries, namely the country of origin and the host country. Not surprisingly, most of this research stream focuses on strategic and institutional dimensions, such as considering the local environment, location selection (Holburn & Zelner 2010), whether a company should own the subunit or partner with a local player (Eden

& Miller 2004), whether the company should adapt to the local market by designing the subunit as an isomorphism of local units, or whether the subunit should conform to the company standards. More operational dimensions are dealt with while considering, for example, foreign firms' performance (Gaur & Lu 2007; Rangan & Drummond 2004), how foreign firms are particularly targeted by law suits (Mezias 2002), learning effects (Gaur et al. 2011) or subunit agility and dynamics (Salomon & Wu 2012). Thus, when countries of reference are very different, local subunits should move away from the standardised model promoted by the MNC and develop as an isomorphism to the local firms. The construct of institutional distance indeed suggests that adaptation should follow the lines of regulatory, normative and cognitive local institutions and provide for risk management when taking strong differences into account. Local adaptation then refers to the characteristics of the local company compared to that of the head office, the level of investment and commitment into given settings (Eden & Miller 2004). Recently, more attention was paid to market and firm dynamics (Kostova 2008; Salomon & Wu 2012) and learning (Barkema & Drogendijk 2007). Regarding retailing activities, over a number of years, large players were able to dictate their play by imposing their formats as the norm. Thus, French players could expand with their hypermarkets while Walmart favoured the supermarket or Metro, the cash and carry business. Within Europe, or in South and Central America, which are major FDI (foreign direct investment) destinations, there may be indeed some degree of acceptance due to geographic, colonial, immigration, linguistic or institutional proximity (Rangan & Drummond 2004). Walmart's success in Mexico may also be accounted for by proximity.

If institutional distance between FDI destinations varies, the level of local isomorphism needed to merge into different host markets should also vary in order to acquire legitimacy. However, because of cognitive distance, the foreign firm's understanding may be low and result in insufficient embeddedness. Similarly, local players may find it difficult to understand foreign firms (Kostova & Zaheer 1999). Due to widespread information about large-scale retail players and the predictability of their behaviour due to high standardization and a readable business model, foreign players may now be confronted with stronger information asymmetries than in the early days. Local players may now be better prepared to face foreign giants.

Features of Local Resistance to Large-scale Retailing

This section tries to capture the dynamics of the interplay between foreign company entry and local markets. While MNCs learn from previous experience, local players (consumers, suppliers, etc.) also acquire knowledge from their experiences with MNCs. This partly explains why overall distance between home market and host country changes over time. Such resistance may surge as the spontaneous artefact of a sum of individual reactions or it may somehow be organised to the benefit of interest groups through informal local institutions. Finally, it may be formally organised, after proper lobbying, by state regulation delegitimising foreign players.

The emergence of strong resistance nevertheless depends on the availability of local resources that can be activated by local players. This calls for an evaluation of available resources. We suggest that the proximity between local players will enable the mobilisation of such resources.

Overall Distance between the Foreign MNC and the Local Players

Elaborating on the existence of resistance requires that the specific steps taken by local players to resist foreign entry be distinguished from what can be accounted for by standard institutional distance.

Characterising Institutional Distance and Resistance in Retailing Activities

Scholars have identified six dimensions where proximity to the local market is needed to perform well in retailing activities. Proximity first refers to the commonly accepted meaning of the word: 'nearness in time and space', also referred to as geographic or access proximity. Researchers have also identified social acceptations of proximity related to the socio-economic relationships between actors (Torre & Rallet 2005). These refer to the existence of more or less direct and/or strong social connections and interactions between individuals or organisations, based on membership values and a logic based on similarity, referring to the existence of a cognitive and material base that is common to the actors in question, along with the sharing of one and the same system of representations and beliefs (Bouba-Olga & Grossetti 2008). Beyond spatial proximity, social proximity can be broken down into five dimensions:

functional proximity, relational proximity, identity proximity, process proximity (Bergadaà & Del Bucchia 2009),² and inter-organisational proximity (Capo & Chanut 2013: Figure 1).

These proximities will partly rely on tacit 'deep structures' that are difficult to interpret for outsiders (Kostova & Zaheer 1999), which suggests that costs will be endured to secure success due to some mishandling. We hereafter group the categories into four sections and define, for each dimension, what might be related to standard institutional distance or to resistance. We consider markets where there is local competition.

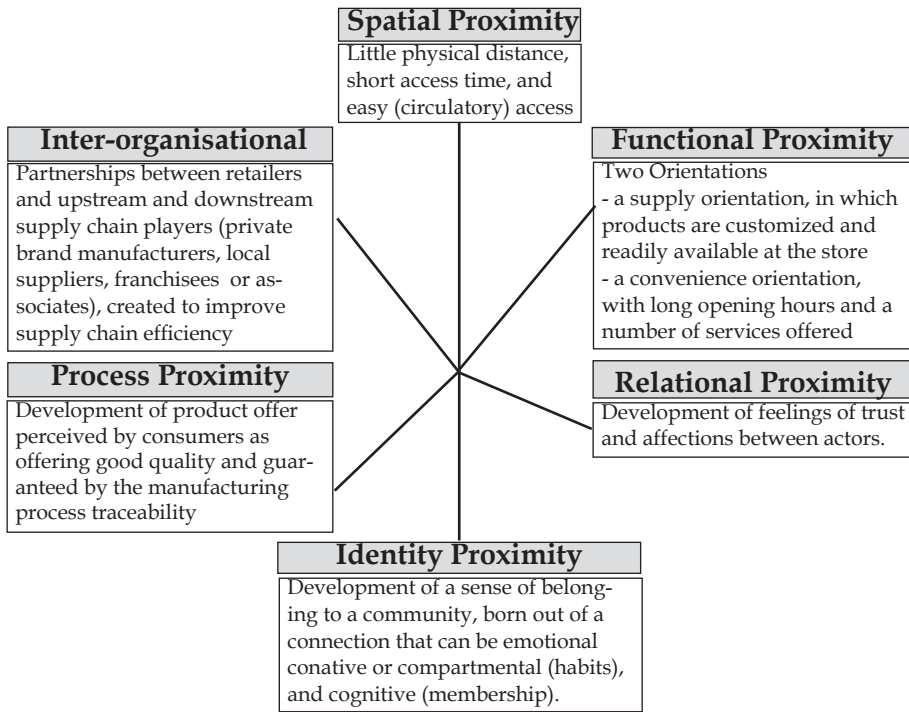
1) Spatial Proximity

In institutional distance spatial costs relate to transport and coordination costs between the subunit and the headquarters. We refer to spatial proximity to account for customer access to the store in a typical multibranch business. When going abroad, the foreign retailer will need to establish stores. The regulatory framework may constrain store openings in terms of locations or size as well as authorisations. These require some degree of adaptation, but are usually known prior to entry. Costs of adapting to given conditions may be linked to market mishandling as the foreign player may find it difficult to understand where the best locations are and how to acquire or access locations. The process of authorising store openings may then be used to counter foreign company entry, particularly when the company is an iconic global enterprise threatening local business. Local communities are often represented in the committees that grant authorisations. Other local players may also refrain from selling or renting space. These discriminatory hazards account for the resistance distance in overall distance.

Such discriminatory conditions confronting the MNC could be found when a high degree of spatial proximity between local players enhances their sense of sharing a common space (city, city centre, and neighbourhood), which is then seen as their territory to keep and protect.

Spatial proximity promotes a type of resistance where insiders face outsiders and struggle over rent sharing or identity concerns. Though other local firms may be considered as outsiders, the foreign firm is more liable to suffer from such discrimination. Nationalism or regionalism could then be used as arguments by local interest groups where emancipation from the foreign entry is the motivation. On a more individual basis, chauvinism or ethnocentrism (Shimp & Sharma 1987; Steekamp et al. 2003; Klein et al. 2006; Sharma 2011) could also slow down the acceptance process.

FIGURE 1. The Six Dimensions of Proximity Used in the Retailing Context



An assessment of the law itself would enable one to qualify the standard distance before being actually confronted with the market. Nonetheless, the way the law is applied – discriminatory costs – gives a much more accurate picture of resistive behaviours.

2) *Functional and Process Proximities*

A strong functional proximity means customers feel that they can find what they need, when they need it, in the right place. Establishing this relies on sharp knowledge of consumer behaviour and an adequate marketing mix. Moreover, process proximity appears when the customer feels that the whole distribution process (along the entire supply chain) is adequate. That applies particularly to fresh produce in the case of large chain stores. Beyond understanding customer requirements, it involves mastering quality along the supply chain, whatever the environment and difficulties encountered. Standard institutional distance born by the MNC may be related to poor knowledge of local consumer needs, misleading interpretations of local habits and some market and supply chain mishandling.

Local players know the consumers in their area and may provide product and service adaptation with the expected quality, thus creating strong functional and process proximities. These two dimensions directly affect customer perceptions of the product/service offered. Low functional proximity on the part of the MNC rather stems from standard institutional distance. As suggested in most of the literature, time and experience might reduce the MNC disadvantage. However, consumers across the world are increasingly demanding, and mishandlings tend to induce heavier consequences than previously. Selling out-of-date products or offering brands involved in scandals may rapidly induce dissent, especially as expectations regarding the MNC may be higher than for local firms, thus causing a potentially severe backlash. Maruyama and Wu (2015), studying the Chinese retail market, found that liability of foreignness may be more easily overcome when foreign firms focus on product quality and price related initiatives. This suggests that mishandlings related to product quality, because expectations are particularly high regarding MNC behaviour in the Chinese market, are liable to induce consumer dissent and radically de-legitimize the foreign company. Because large-scale retail relies on low margins and requires a large volume of sales, such counter-publicity is liable to endanger the business model. Growing transparency over business practices and growing use of media or courts could lead foreigners to failure before they have had time to acquire local knowledge. One way of thwarting such opposition is to melt into the crowd and reduce expectations by partnering with a local player (Eden & Miller 2004), or to adopt a local brand name and reach sideways for the market.

Resistance to the MNC due to functional and process proximity should rather be consumer led. It may also occasionally be manipulated by local interest groups. When measures of institutional distance relate to local consumer expectancies and standard market research, measures of potential resistance could be linked to high expectancies regarding foreign companies and specific local consumer requirements.

3) Relational and Identity Proximities

Identity proximity between the consumer and the retailer relates in our setting to the possibility of the customer defending and being loyal to a single retailer. Consumption has become a central element in the making of consumer identity (Belk 1988). As there is a link between consumption and self-image, consumers express their ethics and values in the way they consume. As consuming has become one of our biggest

time-consuming activities (Newholm 2000), it is not surprising that the consumer should seek proximity between their identity and their consumption (Lipovetsky 2001: 59).

In the presence of relational and identity proximities, local players share values and beliefs with their customers. Interaction with store employees and store behaviour fit into local ways of trading and doing business. For example, a local store may provide customers with credit, which can be understood as a trusting service, whereas a subunit, conforming to standard processes, will not. In their description of coordinated market economies, Hall and Soskice argue that labour management may vary from one type of capitalism to another. This suggests that some specific forms of management may be expected from local employees. The firm or its local employees may face difficulties in adjusting to local requirements. Values and beliefs are spontaneously easier to share with an insider. El Amir and Burt (2008) discuss Sainsbury's withdrawal from Egypt in relation to the stir that developed about supposed relationships between Sainsbury's, the British supermarket chain, and Israel. The spread of this information led to social pressure as the store was left with only very few customers. Potential strong relational and identity proximity on the part of local players may therefore be measured by criteria such as the strength of local social structure and social groups, the strength of the local sense of community or the existence of strongly felt conflicts (as in Sainsbury's case). This dimension is particularly liable to induce resistance.

4) Inter-organizational Proximity

Johanson and Vahlne (2009) use the term 'outsidership' to describe cases where a firm is excluded from important business networks. In their view, this can happen to local firms or foreign firms alike. Being an outsider and not benefitting from relationships prevents the firm from gaining knowledge from other firms, as well as trust and commitment from business partners. The authors argue that insidership is a necessary but insufficient condition for success, thus making inter-organisational proximity a key dimension of market entry. The liability of foreignness increases the chances of a firm suffering the liability of outsidership. Thus, Johanson and Vahlne argue that firms should become insiders to the relevant networks prior to entry. By preventing a foreign firm from accessing relevant networks, local players prevent the outsider from benefiting from knowledge and business opportunities.

The specific context of coordinated market economies (Hall & Soskice 2001) may however be a problem from this point of view. Local firms depend more on professional relationships, intertwined company shares, inter-organisational cooperation and incomplete contracts. These markets rely on institutions that are designed to provide coordination through the exchange of information, behaviour control and sanction of non-cooperative behaviours. These institutions involve professional organisations, unions or players charged with monitoring behaviours. Because links are not easy to perceive, it is particularly difficult for foreigners to identify and interpret these networks. It is also difficult for any of the players to introduce the foreigner into networks where relationships mix with strategic coordination and information sharing. The sanction system may also work as a penalty against any player who drops the group to cooperate with an outsider. Hall and Soskice also argue that these institutions are meant to be very stable through time and imprint the functioning of the market, which suggests there is some inertia. Coordinated markets may therefore make it difficult for foreign firms to acquire knowledge and gain experience of the market and business.

For retailers, the relationship among players in the supply chain, from producer to retailer, has a definite bearing on the organisation of the supply chains that were often designated as the main causes of MNCs' entry failures. Because they rely on providing local products in a more efficient manner than their competitors, retailers have to fit into the supply chains of the host country. This requires a good understanding of the prevailing local governance mechanisms in given supply chains. The existence of long term contracts, relationships or strong interdependencies between players within the supply chain is liable to provide a high degree of resistance. Indeed, local players may fear dispossession, exclusion from the group they interact with or the mere disorganisation of well-established networks.

Though such resistance may be felt by any local company trying to enter, foreign firms face a specific disadvantage if they fail to identify the market structure, the most adequate players in the network, or the best place in which to fit into the network (Johanson & Vahne 2009). A close analysis of both vertical and horizontal links is needed here, as well as the identification of how networked the professions are.

Meant for retailing activities, the framework seeks to provide a better understanding of how global distance affects the interaction of retail MNCs and local markets. Table 1 (below) shows how the setting may

move from standard institutional distance to more resistive patterns of entry and proposes a number of variables comparable to the ones used in standard institutional theory to measure relative proximities.

TABLE 1: Variables Measuring Resistance and Resistive Effects

Proximities	Performance requirements abroad due to LOF	Resistive effects	Variables measuring resistance
Spatial proximity	Adaptation of locations and some format (size) adaptation if needed Complying to local regulations which may be discriminatory.	Little real estate available, only low quality spaces available, number of spaces limited, difficulty in establishing a sufficient number of stores	Number of local players Density of stores opened by local players compared to foreign company
Process and functional proximity	Adaptation of the assortment and overall mix, building the correct links within the supply chain to build adequate offer, Adaptation of services (freshness, processed, opening hours)	High dissent stemming from functional or process mishandlings Difficult access to consistent supplies and brands. Conscious exploitation by local players of foreign MNC errors.	Number of customers local/foreign Law suits local/foreign Conflicts with suppliers Press releases local/foreign
Relational and identity proximity	Building consistent interaction with local customers and workers, regard for local customs and habits.	Unwillingness to interact with foreign company due to strong dissent over given values, conscious use of potential dissent by local players (politics or competitors).	Existence of strong social structures, strong local values, conflicting setting
Inter-organisational proximity	Adapt to local business habits, Fit into the supply chain	No or little space left in the supply chain to deploy the business model	Number of business associations and unions Number of members Power of conglomerates Cross-shareholding practices

Whether the MNC encounters resistance, reworking or resilience depends on the resources available. However, a comparison of given variables across countries may give an indication on the type of resist-

ance encountered. A high number of lawsuits (compared to other firms or those in the home country) could be associated with a reworking process. A high number of stores and the absence of lawsuits may be associated to a resilient context as well as firm embeddedness.

This preliminary approach, however, needs to be confronted more thoroughly in the cases of individual MNC retailers dealing with local resistance. The study thus focuses on two puzzling, but well-documented, cases in two countries that illustrate the arguments: Walmart and Carrefour. The cases of Japan in the mid-1990s and India in the mid-2010s, are settings in which many retailers failed to enter, apparently due to local resistance. These cases allow us to test the framework and demonstrate the impact of the various dimensions of proximity. The study focuses on the most dramatic phase, the entry into the market when strong local resistance is experienced.

The focus on Japan and India in unveiling the specific cost of doing business abroad in resistive settings offers several benefits. Both cases are set in Asia, which remains a puzzling destination in terms of the level of entry failure when compared to Western countries. The same two companies are analysed in the two national contexts, and the examples take place within twenty years of each other. Additionally, both companies have learned from previous experiences of attempting to enter India, as well as attempts to adapt to local constraints. They partnered (when they could) with local players, changed their brand name (Walmart) and tried to melt into the background. And yet they failed. This shows that current recommendations in terms of international business management are not necessarily feasible or sufficient. Indeed, partnering requires that local players do not resist and instead agree to partner with decent conditions. This is not a given within economies such as Brazil, Russia, India or China, nor perhaps in other contexts. Moreover, changing business practices at the local level at a time when internet access is readily available is not always sufficient to gain legitimacy and, in given countries, cognitive barriers are so high they require more than just usual adaptation patterns. Both companies are viewed as standardised global companies that, even if they adapt, duplicate processes in many countries with constant reference to their home market. This may be an element of the puzzle and Carrefour and Walmart may be perceived as being particularly distant from local markets. Nonetheless, they seem to have been confronted with an exceptionally high degree of proximity in India as well as Japan.

Proximity, Resistance and Retailer's Market Entry

FDI in the retailing sector currently causes resistance. India, where the opening of the market caused violent popular rejection and government retreat is a case in point. The academic literature also mentions Sainsbury's failure in Egypt (El-Amir & Burt 2008) or retailer failures in Chile (Bianchi & Ostale 2006), which can both be linked to local resistance. Durand explains this phenomenon in terms of the deep changes brought about by new retailers to a specific country where changes in consuming patterns are observed and the local workforce is impacted by possibly negative consequences in terms of employment conditions and wage standards. 'The local companies of the sector are affected [by FDI in retailing sector] and they themselves participate in the ensuing transformations by reacting to the intrusion of foreign distributors, by introducing new methods and processes of consolidation' (Durand 2011: 119).³ Corstjens and Lal (2012), relying on the costs for a retailer of doing business abroad (real estate, low margins, high fixed costs, high barriers to entry), argue that retailing does not easily cross borders.

The Japanese and Indian markets have very resistive characteristics, which the present study links to forms of local proximities. As noted, it focuses on the ventures of the two biggest retailers, Walmart and Carrefour. Due to their reputation, local expectations regarding their behaviour are high and they are, more than others, perceived as a threat by insider members of the local market, thus potentially creating negative reactions to their entry in a new market. After quickly describing the main characteristics of the retailing sector of each country, we will focus on the main identified resistance sources and their links to proximity factors.

The Case of Japan

Despite only opening up to foreign entry towards the end of the twentieth century, and only relaxing the Large Store Law relatively recently (1994 and 2000), the Japanese market is nonetheless very effective and mature. However, it is also deeply fragmented and, throughout 2007-2017, large players still account for less than 10 per cent of total retail turnover in the country (Survey of Commerce 2014, METI). This reflects the relatively weak bargaining power of large players. Observing such data from a Western economic perspective could suggest a relatively immature market where stakes were still open. However, the proximities faced by leading MNCs are quite different to those experienced among local players.

Carrefour entered independently in 2000 – shortly after the large-scale retail store legal prohibition was repealed – creating their own stores. Walmart, partnered by Sumitomo Shoji, took shares in Seiyu (the fourth largest retailer in Japan at that time) in 2002/2003, thus entering through a process of transferring 'world class' supply chain practices. Walmart finally took control of Seiyu in 2005 and Carrefour developed eight stores before selling them to Aeon in 2005.

Inter-organizational Proximity in Japan

Japanese distribution is still largely structured around long-distance channels that rely first and foremost on wholesalers: that is, intermediaries whose function consists of constantly purchasing and storing large quantities of domestically produced or imported goods (and sometimes incorporating a service activity) with a view towards being able to supply professional users (retailers, communities, etc.) on a regular basis. The key role that Japanese wholesalers play reflects their long historical links with suppliers who are significant players in the country. Wholesalers have significant economic weight, generating total annual revenues of 314,884 billion yen (or about €2,544 billion) in 2015, and accounting for about 69 per cent of all commercial sales in Japan (versus 31 per cent for the retail trade) (Census of Commerce, METI, 2016).⁴ Working alongside the country's producers, they have often been the drivers of technological and conceptual innovation, which explains why they fulfil a broker's role within this channel. The Japanese economic crisis of the 1990s (when the financial bubble burst), together with the entry of international retailers, put increasing pressure on producers and wholesalers in order to rationalise and optimise the supply chains.

Previous research has shown wholesalers' roles within Japanese supply chains are more central to the actors' coordination than they are in France (Capo 2006) or most other European countries. The characteristics of the Japanese context, as well as the wholesalers' resources and capabilities, make it possible to identify the presence of a collaborative kind of leadership based on the ability to create coordination between actors (Capo & Chanut 2012). Japanese wholesalers' resources vary depending on their size and the scope of their activities (national or regional), although it is generally national wholesalers who intervene in mass retail. As intermediaries for all aspects of the exchange, they play a dual role, serving as a buffer and a filter between partners. They affect the general terms of trade as well as the actors' behaviours. Meyer-Ohle (2003) observes that relationships with suppliers are strong and notes the

remarkable inertia of the Japanese supply chain where, as organisations evolved, tasks were reallocated among players without endangering their livelihoods. Flath and Nariu (1993) have also argued, contrary to conventional wisdom, that although they are long, Japanese channels are also efficient. Indeed, in some respects, they can combine the added characteristics of a wholesaler and a logistics provider. Removing these intermediaries from the channel proved very difficult, as they were closely interlinked on a functional basis. For a supplier, working direct with a retailer meant assuming tasks that were usually delegated to the wholesaler. Besides Carrefour's refusal of producer fixed prices (Larke 2003), there was also public opposition of major wholesalers such as Kokubu, the largest Japanese food wholesaler. Working directly meant endangering the whole system, though it eventually proved efficient.

Anti-competitive practices in the supply chain developed as a way to resist Carrefour's entry (Dupuis & Fournioux 2006) and most suppliers refused to sell directly to Carrefour, which could not unfold its low cost business model to gain competitive advantage. By acquiring Seiyu and creating a partnership with Seiyu's other main owner, Sumitomo Shoji, Walmart also acquired purchasing power (400 stores) and some knowledge about developing relationships with Japanese firms. However, Walmart has now been struggling for years without making much of a profit.

Spatial Proximity

Carrefour's venture in Japan received a great deal of Japanese media attention. Before entry, the press and Carrefour's competitors created a threatening image of Carrefour, comparing the retailer to American 'black ships' (Nemoto & Tamehiro 2001: 37). 'Black ships' refers to the American military ships of Admiral Perry, which forcibly opened Japan to overseas countries in 1853. The Japanese press strongly criticised Carrefour and commented negatively on every single initiative. The foreign origins and the scale of the Western retailers led them to be perceived as 'an enemy' of the Japanese retail system. According to Takayama: '[T]he general point of view is that Western retailers are seeking to "create distribution systems" in Asia, but in Japan, their aim is to "break the distribution system"' (2001: 5). Thus, foreign retail MNC entry was confronted with spatial proximity, particularly in Carrefour's case, as the company did not partner with a local player.

Other distance-related – though not necessarily resistive – spatial challenges were met by the global players, some of which prevented

them from deploying their favoured retail formats. Due to crowded cities and high real estate costs, as well as the exceptional large scale of the stores planned, Carrefour had to settle in less attractive areas, away from lucrative residential neighbourhoods.

Functional and Process Proximity

Japanese consumers are also very demanding. They expect high quality, continuous innovation and high levels of adaptation to their tastes. Analysts have identified Japanese consumers as the most sophisticated in the world (Global Competitiveness Report 2007, World Economic Forum 2007). Regarding Carrefour, after initial enthusiasm, consumers were dissatisfied with the proposed store formats. They were unsettled by the store's format, the internal organisation of shops and the content of the offer. They did not perceive the existence of a strong proximity between their expectations and the offer: the stores are bigger than any other store in Japan, thus creating an unwelcome feeling of emptiness. In contrast, Japanese stores usually prompted a feeling of profusion and overflow. The shelves in Carrefour stores were too high for Japanese people, weighing fruits and vegetables disconcerted consumers used to pre-packaged products (store managers did not think of communicating about such processes at the outset, thus losing consumers).

Moreover, Carrefour lost consumers because of inadequacies in the quality of the fresh produce. Sato notes the incompatibility of Carrefour's volume-based procurement policy with Japanese consumer habits and preferences (2004: 79). The unevenness of the produce in terms of class or size was a departure from the standard practice in Japan where pre-packaged foods aim to be homogenous. Consumers also detected high levels of failure in terms of expiry dates.

Walmart (through the Seiyu stores) also had difficulty in adapting their policy of global purchase to the specific tastes of Japanese consumers and their expectations in terms of design, quantity and innovation. Own brands were also poorly accepted at first (Sato 2004), as Japanese customers were not used to them. Finally, in the case of Carrefour, the poor locations did not enable functional proximity. Local players could therefore get closer to local consumers than either Carrefour or Walmart could. Obviously, the two giants misunderstood local expectations in various manners and failed to adapt. Functional and process proximity failed to countervail other difficulties.

Relational and Identity Proximity

While local players were used to interacting with Japanese consumers and shared common values, foreign players had little awareness of how to build good relationships. Relational proximity partly relies on the social interaction between store employees and consumers, who then feel at ease in the store. In various contexts, including Korea, China and Japan, Western MNCs are viewed as having bad relationships with their employees (Coe & Lee 2006; Aklamany 2014). By introducing changes in the management processes in Japan, world giants also unsettled their employees. Within Carrefour's stores, French managers did not adapt communication and training patterns to Japanese practices. This generated discouragement and a high staff turnover. Walmart's staff members were also concerned because of the firm's reputation for being unfair to its employees (Durand 2011). A lot of executives decided to quit Seiyu upon Walmart's takeover (Aklamany 2014). Such reactions did not improve the retailer's image with consumers.

The Japanese setting in 2000 featured more resistance to Carrefour than to Walmart. Carrefour's mode of entry induced higher costs of foreignness in relation to market approach than Walmart's. While the lack of consumer support may be traced to cognitive costs that stem from a lack of local adaptation, mishandling of the market and poor locations (no functional proximity), the supply chain also provided quiet but steady resistance related to the long-term relationships local players kept with all large-scale suppliers. With no inter-organisational support, process proximity was out of hand and when facing the 'establishment', foreign players could not reach for government support. While there is no strong evidence yet of specific identity proximity between local players, the socially embedded task allocation which is characteristic of the *keiretsu*⁵ might have ramifications in retail activities.

Though other concerns may crop up (spatial, functional, process, relational proximities) due to standard institutional distance, they are far from being prevalent. Resistance in Japan did exist owing to networks and foreign firms' outsidership (Johanson & 2009). As demonstrated by Walmart's case, however, entering through local partnership does not lead to much better results. This suggests that there may be no necessary link between outsidership and foreignness, and that other local players might also suffer from outsidership. This may also underline the difficulty of selecting a partner to induce legitimacy. The noisy unwelcoming of foreigners conveyed by the media suggests that there was some degree of frontal resistance.

The Case of Proximity and Resistance in India

India is a huge market due to the country's population of about 1.2 billion inhabitants and a growing middle class, particularly in large cities. With annual expenditure in retail estimated at about USD 500 billion (about €450 billion), the market is attractive and the retail trade represents more than 10 per cent of GDP and 8 per cent of the Indian workforce. According to Gallup (2013), the average Indian per capita income is however much lower (USD 600, €545) than that of the average Chinese customer (USD 1786, €1624). Most trade, particularly of food, is undertaken by informal (unorganised) retailers: small independent stores and street vendors (fixed and mobile stores) account for 94 per cent of retail (compared with 80 per cent in China and 64 per cent in Brazil). Therefore, India has a high store density, with 15 million stores and about 12 stores per 1000 inhabitants. Organised trade represents only a small fraction of total sales, and turnover is fragmented between various retail organisations without any of them having any kind of market leadership. In 2015, organised retail (single brand and multi-brand retail) was said to hold a 5 per cent market share (McKinsey 2016) over Indian retail sales.

Before the end of 2012, foreigners had to have 100 per cent ownership in wholesaling activities or in the cold chain or back office (since 2006). The Indian multi-brand retail market was long closed to foreign ventures and only opened at the end of 2012, though it is now very progressive (Baron et al. 2013) .

Spatial Proximity

Spatial proximity between local players in India has recently proven to be strong. Government attempts to open the market have been frequently hindered by violent demonstrations and the amalgamation of a wide range of professional bodies against opening up, particularly targeting multi-brand retailers such as supermarkets and hypermarkets. After some foot-dragging, caused by clashes within the governing coalition in power in New Delhi, by the end of 2012 the Indian government passed a bill in Parliament allowing for 51 per cent FDI ownership in multi-brand retail. Yet, individual states were left to decide whether they would allow foreign owned supermarkets or not. Such difficult conditions led Walmart and Carrefour to restrict their activities to the wholesaling market.

Spatial proximity in India partly relies on the number of people potentially affected; there is also a long established contesting culture. The Swadeshi philosophy of self-sufficiency popular in Gandhi's time is still active today. Varman and Belk (2009) argue that instead of targeting British imports to enable the emergence of Indian industry, India has now turned to targeting a wider range of foreign firms, among whom Walmart and Carrefour may be numbered. They argue that local nationalism is aimed at unifying a patchwork of regions, religions, conditions or castes into one nation. Nationalism is imprinted in both the institutional environment and the discourse of the local resistance. Though local players were also targets of protest when they opened supermarkets, they were nonetheless able to open a number of stores.

Partnering with local players was a means to blend into the local environment. But Carrefour could not find a local partner and Walmart, after venturing in 2007 with local player Bharti Retail, a subsidiary of a large conglomerate, split from it in 2013. Carrefour, starting in 2010, only opened five wholesale stores before withdrawing in 2014.⁶ According to press reports,⁷ together, Walmart and Bharti opened 20 wholesale stores from 2010 onwards, in various large cities in eight Indian states. Walmart also tried to melt into the landscape by choosing 'Best Price' as the local retail brand. Local resistance led this large retailer to significantly depart from standard home management practices: into wholesaling rather than retail, hiding the Walmart name and partnering. However, success was elusive. Carrefour withdrew, and Walmart is not flourishing. Spatial proximity was obviously difficult to achieve for foreign players.

Functional and Process Proximity, Relational and Identity Proximity

Indian players had an advantage in terms of functional and process proximity with consumers. Being confined to wholesaling activity, and hampered by many constraints, both Walmart and Carrefour were incapable of developing functional and process proximity or of interacting well with customers.

Inter-organisational Proximity

The Indian market has some similar features to the Japanese market in terms of creating a high liability of outsidership for foreigners attempting to enter local networks and supply chains. It is argued here

that the Indian market is highly networked and rooted in local social structures.

The fragmented Indian market involves a great variety of small-sized enterprises in a situation where food purchases account for 47 per cent of consumer expenditure. Like Japan, the Indian supply chain features impressive wholesaling and trading activity, with 958,000 companies in 2012, employing 9.6 million workers (Euromonitor 2013). Like Japan, the market also seems to feature high coordination within agriculture, industry and retail and powerful professional bodies such as market intermediaries, manufacturers and professional associations.

Most of the intermediaries in India's agricultural supply chains are small-scale, nonintegrated marketing enterprises operating in the unorganised sector, for which little official data are available. This partly explains why they are not visible to the newcomer. Beyond the farmer, wholesaler and retailer, additional intermediaries may be present in supply chains, including village collectors who purchase from farmers and sell on to primary markets or sub-wholesalers who operate between wholesalers and retailers. Many of these intermediaries provide money in advance to farmers to cover cultivation costs, accept repayment in the form of produce after harvesting,⁸ and contribute to the delivery process. Consequently, the supply chain provides a living to numerous interdependent people.

Fast-moving consumer goods manufacturers are also engaged in wholesaling activities to reach the retail market (Baldev Raj 2014). A small number of large manufacturers work as conglomerates and providers of capital in various economic fields. These groups, provided with strong capital resources and entry to both private and public networks, were the prominent local investors in retailing and the sole potential partners for foreign players. Such players preferred to master foreign retailers rather than be mastered by them. Backed by their government and in a strong position to negotiate their participation in a joint company, no agreement could be settled between Carrefour and any of the few eligible Indian players. Walmart and Bharti split shortly after partnering, probably due to the low benefits Bharti was gaining in the joint operations. With no access to true local partnerships, Carrefour and Walmart were left with few resources to generate inter-organisational proximity.

Damodaran (2008) notes the power of the Federation of Indian Chambers of Commerce and Industry (FICCI), sponsored by industry leader Birla who believed it would enable merchants in all parts of India to

stand on one platform (created in 1927). Baldev Raj (2014: 229-230) also refers to two other powerful pan-Indian industry associations with the Assocham, the equivalent of FICCI, originally created by British colonials in 1920, and the Confederation of Indian Industry (CII) created in 1992.⁹

Thus, in the Indian market, foreign retail MNCs are particularly liable to face outsidership whereas local players can rely on a variety of proximities: spatial proximity supported by a long maintained philosophy of self-sufficiency; relational and functional proximity with the current density of family run stores; strong inter-organisational proximity; combined with strong identity proximity and a better process proximity (though it may remain low) than can be obtained by newcomers. Resistance to foreign retail ventures in India is conscious and collective; it involves a large number of parties, both noisy and silent, and strives for emancipation (Baron et al. 2013). In turn, resistance prevents MNCs, through government pressure, from benefitting from functional or process proximities.

Conclusion

This article set out to account for resistive patterns encountered by retail MNCs in their foreign ventures. Resistive patterns are described as emerging from a specific distance created by local players' dynamic actions when facing MNC entry. Though institutional distance induces costs for the MNC, in most cases foreign firms are capable of adapting to circumstances. In some cases, due to strong local resistance, the space left for foreign MNC decisions is very narrow. In order to investigate these circumstances in retail activities, the authors proposed a framework within which to analyse two cases of large-scale retailing in India and Japan. Inter-organisational proximity (outsidership) and spatial proximity (nationalism in this case) drive resistance at the stage of entry, as foreign players were incapable of opening stores or accessing the relevant networks to develop their business model. Both dimensions relate to informal barriers to entry. Results confirm that networks are necessary (Johanson & Vahne 2009) but not sufficient. Entering was probably neither a matter of isomorphism nor of partnering with a local player in retail activities. Rather, if giving up entry was an option, had foreign players foreseen local networks, foreign MNCs could maybe also have fitted into another part of the supply chain to gain legitimacy. Tesco, partnering with Tata in India, works on improving the partner's supply chain and

process. This is quite a move from their standard business model, and is probably unacceptable for most MNCs, but it would have the potential to grow into more local trust and legitimacy in the long term. In the cases of Japan and India the resource of resistance lies in networks and both settings might be analysed as coordinated markets.

For the purposes of this study, the other dimensions of proximity (process and functional proximity, identity and relational proximity) were not considered as being of equivalent importance to spatial and inter-organizational proximity. This is because in India and Japan, resistance was enacted upon entry and foreign players could not engage fully with local operations. Resistance is dynamic, and foreign MNCs' process and functional proximity, or identity and relational proximity, may be contested by local consumers and citizens. Conversely, the internet offers opportunities to connect directly with customers, and local opposition may then be thwarted by process and functional proximity or relational proximity. Resistance could therefore behave differently, depending on the stage of entry of the foreign MNC. Overall, institutional distance would then vary across countries and within a given country over time, due to local resistive patterns. Further study will refine the understanding of local market dynamics and relative institutional distance in retail activities.

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NOTES

- 1 See Aidis and Adachi 2007 on Russia, for example.
- 2 Bergadaà, Michelle and Del Bucchia, Céline 2009. 'La recherche de proximité par le client dans le secteur de la grande consommation alimentaire'. (The search for proximity by the customer in the food market) *Management & Avenir* 21 (1): 121. <http://doi.org/10.3917/mav.021.0121>.

- 3 Durand, Cédric 2011. 'Pourquoi les distributeurs échouent ou réussissent à l'étranger ? Une analyse comparée de l'internationalisation de Wal-Mart et Carrefour'. (Why do retailers fail or succeed in foreign countries? A comparative analysis of Wal-Mart and Carrefour). *Entreprises et histoire*, 64 (3): 118. <http://doi.org/10.3917/eh.064.0118>.
- 4 http://www.meti.go.jp/english/statistics/tyo/syoudou_nenpo/index.html
- 5 A *keiretsu* is a typical Japanese conglomerate where cross-shareholdings and cross-control is the rule.
- 6 <http://www.carrefour.com/content/finance>
- 7 <http://www.forbes.com/sites/walterloeb/2013/10/16/walmart-what-happened-in-india/#513c2b39c49f>
- 8 'Farmers struggle to escape middlemen', *India RealTime*, 26 February 2014 (<http://blogs.wsj.com/indiarealtime/2014/02/26/farmers-struggle-to-escape-middlemen/>).
- 9 In addition, the caste system may still have some ramifications on current business practices (Baldev Raj 2014; Damodaran 2008), potentially resulting in the preservation of channel structure and processes (Grewal and Dharwadkar 2002: 91).

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