International Journal of Econometrics and Financial Management, 2015, Vol. 3, No. 1, 1-6
Available online at http://pubs.sciepub.com/ijefm/3/1/1

DOI:10.12691/ijefm-3-1-1

Development Features of Retail Chains in Russia: a Comparative Study of Europe

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Received October 18, 2014; Revised November 05, 2014; Accepted December 21, 2014

Abstract Article raises an issue on the differences between the production and retail networks. Taking an account of a network internationalization, these differences become even more profound. Paper provides a literature overview of the scientific approaches to differentiate and typologize the periods of retail internationalization in Europe, as well as the strategies adopted by the respective retail chains. The study provides a comparative analysis of the development process of retail networks in different groups of European countries, with an emphasis on internationalization processes. Results of a comparative study suggest that the Russian retail market in still being at the stage of a rapid development featuring a highly heterogeneous spatial dispersion of retail chains and a diversity of trade formats. The inward internationalization as well as intra-regional networking is rather underdeveloped, while the outward internationalization of the national retail chains requires an active participation in the global distribution channels.

Keywords: *retail chain, retail network, retail internationalization, Russian retail, comparative study*

Cite This Article: Bolychev Oleg Nikolaevich, "Development Features of Retail Chains in Russia: a comparative Study of Europe". *International Journal of Econometrics and Financial Management*, vol. 3, no. 1 (2015): 1-6. doi: 10.12691/ijefm-3-1-1.

1. Introduction

Emergence of retail networks at the market provides an impetus to the development of the regional economy in its complex. Modern distribution centers capable of coordinating a ramous set of actors (e.g. agricultural plants, manufacturing units, logistics enterprises, wholesalers and retailers, etc.) at international and multi-continental levels are only possible with the formation of large retail networks. Such networks quite often are much more powerful than regional authorities are and capable of dragging in the local industry into the global supply chain, proving a stable demand. The array of stakeholders taking the advantage of large retail networks is not limited to the local and national businesses (i.e. C2C collaboration). The final consumers – the society is equally obtaining a variety of benefits, such as the wider range of products, cheaper prices (especially in case of discount stores), an internal product quality and safety control (since most large retailers follow their own quality standards in addition to the compulsory ones imposed by the state), new employment vacancies, etc. Thus, the question is what are the market conditions (i.e. the state of the socio-economic context) favorable for the development of an inward or outward internationalization of the retail chains?

The aim of this article is to compare the development process of retail networks in different groups of European countries, with an emphasis on internationalization. In the following study, we adopt the following definition of a retail network: "a set of shopping facilities, which is managed by a single owner, uses similar retail formats, and operates under a single brand [[24], p. 50]. According to this approach, trade objects have the following forms of network links: formal institutional (i.e. ownership), managerial (i.e. a single unified management scheme, which has a different degree of centralization), organizational and technological (i.e. work in close commercial formats), symbolic (i.e. work under a single brand).

2. Theory Review

2.1. Network Theory in Retail

Networking is one of the basic premises of the modern economy, which is characterized by an all-embracing nature of mutual interdependence. As noted by Beije and Groenewegen [3], networking implies specific connections both within and between certain groups of economic actors, who are essentially independent market participants, while being partly, but intentionally involved in to the common economic activity. Forsgren and Johanson [12] suggest that a network is a set of actors and relations among them, which can be identified via related interdependencies of actions and resources. Meanwhile the actions are not limited solely to interpersonal or business communications, but also include exchange of resources and competition. This initial independence and institutional heterogeneity of the actors within a network is reimbursed by their somewhat interchangeable tasks and resources [19]. Thus, Jones and colleagues [18] consider a network as a partly-independent structured complex of organizations, being involved in to a sustainable mutual relations and bonded by a common goal. These relations are based on both formal and informal contracts, while the structured and ordered relations of exchange between the network's participants contributes to their ability to adapt to the changing environment [18]. The studies of Hakansson and Johanson [14] postulate that this continuous relationship between the market entities are subject to constant changes, which is different from traditional hierarchical or market structures. Yet there is no common opinion on the position of the network concept with regard to the hierarchy and market categories [22,30,32,33].

Notwithstanding the value and applicability of the theoretical foundations of the network theory concerning retailing, there are a number of justified arguments for the need to develop a specific theoretical framework over the retail networks. For instance, there is a considerable difference of the strategic and operational settings of the retail networks and manufacturing networks [2,8]. The manufacturing based theory of networks makes the existing conceptual developments of limited value with regard to retailing. Ghoshal and Bartlett [13], as well as Håkansson and Snehota [15,16] found that the two types of networks have different structure. While manufacturing networks are generally structured in a vertical manor, following the sequence of the product value chain, the retail networks are complex horizontal linkages, with a strong strategic embeddedness into the local market. Literature on retail networks is more focused on the process of social change being raised within the B2C interactions and the strategies of local market adaptation [27,28]. An even greater conceptual differentiation is followed by recent developments in international retailing [7].

2.2. International Retailing: the Process of Network Internationalization

Internationalization strategy in retail is a rather controversial concept, since one might argue that, in essence, the trade missions with the British and Portuguese colonies were nothing less than an international retail network. However, among of the early widely accepted examples of a successful implementation of an internationalization strategy is the British firm "Whiteaway and Laidlaw", which has established a department store in Calcutta back in 1882. By 1923, it already had up to 50 stores in Asian and African cities. The period of 1880 – 1939 is often considered as the initial stage of internationalization in retailing, dominated by North American and European companies, being focused on establishment of luxury boutiques in the cities of cosmopolitan markets [6,7,20]. After the Second World War, between 1945 – 1960, the North American companies engaged in the process of 'exporting' their business models and retail formats (e.g. supermarkets) to the markets of Western Europe and Japan. The following fifteen years (1960 – 1975) of retail internationalization was the blossoming period, characterized by extensive flow of foreign direct investments in Western Europe and USA. In the situation of a highly saturated local market, wealthy retail companies were eager to penetrate new markets, preferably being the first one to secure the market share. Among of the first to host foreign retailers were chosen the countries of mental and cultural unity (i.e. proximity), those with similar political, social and economic conditions. German retail companies Metro, Aldi and Lidl, as well as French company Carrefour are among the well-known examples of the companies that realized this type of strategy. By the second half of 70s – beginning of 80s of the XX century, the pace of transnational retail has slowed down, affected by the macro-economic situation.

Since the late 1980s, the strategy of international expansion (i.e. internationalization) has gained a sustainable attention from both the retailers and scientists [7]. This period was basically the second birth (i.e. renaissance) of the internationalization strategy in retail. The countries of triad (i.e. Europe, USA and Japan) have anew their investment plans, giving a substantial growth to the density of retail stores at the local markets, thus making diversification and internationalization an even more valuable and inevitable strategy for maximizing market share and profits. By the end of 1980s, the pace of macro-regional expansion in USA and Europe has started to slow down. However, the emergence of new markets due to the collapse of the USSR, the formation of a single European market (the European Union), and assignment of the North American Free Trade Agreement (NAFTA) has once again fueled the dynamics of retail development.

A number of scholars [9,20] have observed a certain sequence of retail internationalization in Europe. This sequence was termed as 'waves' of internationalization. Countries that belong to the first wave – e.g. Czech Republic, Hungary, and Poland, have experienced a significant amount of pressure coming from western retailers. The FDI flow have enabled to increase the share of supermarkets tenfold in 10 years' time. However, the rapid modernization of the local retail sector by external funding did mean that even today large market share belongs to foreigners (e.g. one of the largest retail networks in Poland – Biedronka belongs to a Portuguese company). Yet one of the positive sides of this process is a generally unified system of quality management and organization. Countries of the second wave – e.g. Bulgaria and Croatia, are somewhat similar to the first group, but due to geopolitical reasons these countries were latecomers, still gaining a comprehensive increase in the share of retail sector by the year 2000 (approx. 20-30%). All in all the 1990s was the period of an active internationalization of retail networks, where individual companies acquired different strategies and geographical destinations to succeed. In example, the British company Tesco has focused on Central Europe, while Carrefour has settled in Eastern Europe – Poland and Slovakia. The countries of the first and second waves can be regarded as an easy target due to socio-economic and political commonalities, as well as geographical proximity. General economic growth and increase of purchasing power after a while has attracted a large number of retailers, forcing the companies to search for new business solutions.

By the end of the 1990s, retailers started to give up some markets in favor of other ones, investing into the markets with large market share in the hope of a considerable rate of return. The pace of internationalization process has once again increased. Inter-continental retail activity has become more common and more vivid, as it was noted by Rugman and Girod [25,26]. By the year 2000, one could observe truly global retail companies, executing multi-format international retailing. This is the time when large multinationals entered the countries of the third wave – e.g. Russia and Ukraine.

2.2.1. Internationalization Strategies

As it is noted earlier, there were several major waves of internationalization, each defined by a specific business strategy and operations model. The main objective of which was to capture 'the biggest piece' of the market and retain competitiveness over time. Although, this is the abstract description of the internationalization process. Let us look into detail on the specific types of internationalization strategies to be used.

Wrigley [34] delineates between two types of strategies – 'category killers' and 'corporate parents'. The Wal-Mart is a classic example of a company that initiates a category killer strategy. This type of strategy presumes that a company internationalizes a standardized retail format, have a vivid hierarchical bureaucratic type of governance, the organizational culture and business ideas are being imposed top-down, there is an obvious focus on economies of scale (with regard to product range, marketing, logistics, etc.). The second type of strategy – 'corporate parents' (e.g. Ahold). Companies within a network of this type have various different types of retail formats, are highly focused on establishing local partnerships, have decentralized type of governance, which ensures a more efficient transfer of competences, knowledge and skills within network. As it is said by Wrigley [34], in practice companies rather often use a mixture of the two types of strategies. Good examples here would be Tesco and Carrefour.

Pall and Hanf [20] suggest another typology of internationalization strategies. The first one is defined as the 'strategy of standardization' – the cheapest prices available on the market, which is achieved by an efficient organization of the supply chain and the economies of scale (e.g. German Metro Group and Schwarz Group). This strategy is much like the 'category killers' mentioned above, being highly effective in developed markets. The second type of strategy is 'strategy of differentiation' – the demand driven type, where product range is being adopted to the local culture and specific demand of the targeted customer group. This strategy is generally being used to succeed in the developing markets, and has evident similarities with the 'corporate parents' type.

All in all both classifications of internationalization strategies are quite similar, and both authors admit that there is possibly no company available on the market today to fit into a single ideal type of strategy described. Generally, there is a standard product category of a store available at any market, while certain product differentiation still exists according to a region (e.g. a greater range of beer in Bavaria part of Germany or generally in Belgium, or a wider variety of cheese in France). According to [1,20], a product differentiation generally reaches up to 20% regardless of the main type of internationalization strategy used, while the product range within a country is rather similar, and between the countries the product range is more adoptive.

Since there is an empirical evidence on successful retail networks regardless the type of internationalization strategy implemented, we can advocate that competitive advantage is being based on effective relationship management of a network, i.e. the supply chain management, total quality management, the efficiency of marketing activities, cost reduction, professional financial management, etc.

2.2.2. Mechanisms of Market Entry

There are a number of different mechanisms of market entry available to a retail network, varied by the level of required costs and ensured control (Figure 1). Radaev [24] links the change in retail formats with the market competition, which takes place between the organizational forms. The old organizational forms are being superseded by the new ones, if the latter are more cost effective and gain customer approval. While it is argued that change in retail formats can occur both, in an evolutionary way, as well as being externally imposed. In the 1990s the old-fashioned and ineffective national retailers of the Central and Eastern Europe were gradually replaced by the more effective and appealing foreign retail networks, that have kept their leading role up to date [4,29].

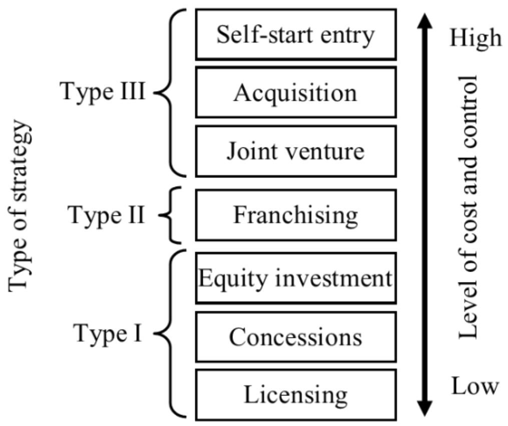

Figure 1. Mechanisms of market entry. *Based on*: [6]

The presented mechanisms for the entry in to a foreign market can be conditionally divided in to three groups. First, the strategy of licensing, concession and equity investment all insure some part of control over retailing in a highly risky market. This type of strategy can be successfully used to study the local business culture and climate, as well as to test certain core products of the retail network, thus be the starting point on the decision to the full market entry. Second, the strategy of franchising – a possibility to introduce the unique features of the network on to a new market, while partly avoiding such barriers as bureaucracy and corruption. This option suggests a certain balance between the required capital investments and the control of the business operations. Franchising is one of the most popular strategy being used to enter the Russian retail market. Third group of strategies include joint ventures, merger and acquisition, and self-start entry. Even though there are conceptual differences between the action modes with this group of strategies, they all require personal physical representation in the given area, placing a full body of responsibility on the company's management team (e.g. launching the project, conducting market research, establishing or improving the supply chain, etc.). Moreover, the differences in the options become even vaguer when it comes to such protected retail markets as, for example, China, where the option of joint venture is the only option to engage into a self-entry [23]. Edvardsson and colleagues [10] stress attention to the variability of the internationalization process, implying that each network and even a single division of a network often choose different strategic actions to approach a particular market. While the process of intra-network competition ensures the mobility of resources, and its structure [21].

3. Development and Internationalization of Retail Networks in Germany, Poland and Russia

An overall distribution of the development stages of retail networks by groups of European countries is presented in Figure 2.

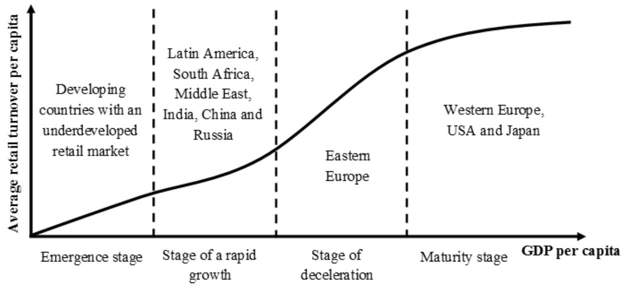

Figure 2. Stages of development of the retail sector

Germany falls in to the group of developed countries of the triad (Western Europe, USA and Japan), that are positioned at the stage of maturity. Up to the mid-1990s, small retailers, such as local private shops, occupied the biggest share of retail market in Germany. Over the next couple of years (up to the beginning of the 2000), the retail market has experienced a rapid change. New retail formats and business models have introduced the local community with hypermarkets and discount stores, with a large diversity of products and a system of self-service. Number of retail grocery stores has declined dramatically. Starting from the mid-2000s, German retail market has largely identified its most successful business formats – brand discounter, providing a reasonable diversity of product range of a particular brand (e.g. Edeka, Netto, Rewe, etc.) and hard discounter, providing a limited variety of products at a highly competitive price (e.g. Lidl, Aldi). Today the German retail market is highly saturated, with a low profit margin, which affects the outflow of FDI. Hypermarkets of a trade floor being greater than five thousand square meters, offering a great variety of food and non-food products are the most common. Yet an interesting feature of Germany is an almost full market share of foodstuffs being dominated by the national retail networks [17].

The second group are developing countries of Eastern Europe, including Poland. Until the 1990s, the growth of retail trade was held back by the government that owned most of the business. Until the 1995, national business had to bear an extremely high inflation rate and devaluation of the national currency. The retail market was unstable, large state-owned retail networks were privatized, while no state control over prices, nor subsidies for imports or exports offered. Never the less, this was the period when large retail networks, such as Makro, entered the market via franchise. New retail formats – hypermarkets, supermarkets, discount stores were offered to the market. By the end of 90s of the XX century, the Polish market got involved into an active trade policy, a large number of international retailers entered the market (e.g. Tesco, Metro, etc.). At the beginning of the 2000s, the market became overwhelmed by large international retailers. This has increased market competition dramatically, thus some of the companies decided to leave the market. Others created joint ventures and limited their presence in the most profitable areas. A considerable feature in the Polish trade became the borderland trade tourism located at most national borders. Nowadays, Polish retail market is characterized by the prevalence of discount stores, predominantly owned by foreign retail networks (e.g. Biedronka, Netto, Lidl, Aldi) [17,31].

Russian retail market is being at the stage of a rapid growth along with the developing countries of Latin America, South Africa, Middle East, India and China. According to [11], Russian retail market had a four-stage development cycle (Figure 3).

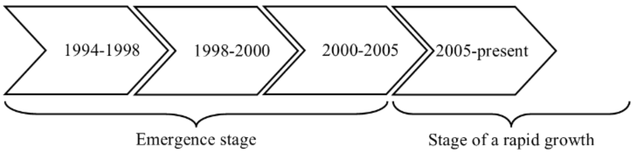

Figure 3. Development of Russian retail. *Based on*: [11]

The mid-1990s can be regarded as the emergence stage of the Russian retail market. A rapid development of entrepreneurship brought up the first national retailers – e.g. “Sed'moy Kontinent”, “Perekrestok”, “Paterson”, “Ramstor”, “Lenta”, “Kirovskiy”. The new retail formats (e.g. luxury supermarket) were co-existing with the old ones, while focusing on a middle-upper class. After the 1998, the first discount stores began to emerge – e.g. “Kopeyka”, “Pyaterochka”, “Diksi”, “Magnit”, focusing on a lower-middle class consumers. By this period, retail chains have started to lower the profit margin and widen the diversity of the product range by working closer with domestic producers while forming regional networks. It was just before the year 2000, when the share of retail networks exceeded the threshold of 1%. Over the next five years, foreign companies have initiated an active expansion policy to the Russian market, significantly strengthening their positions (e.g. “Metro”, “Auchan”). Old retail formats are being replaced by the new ones, including multi-format networks. Much more tough becomes the regional expansion of large retailers, that master new financial instruments and form first inter-regional networks. The market leadership is being transferred from producers to networked retailers, who are generally conglomerate around wholesalers and distributers. During this period (approx. 2000 – 2005), the share of retail networks increased from 1 to 24 percent. By the year 2005, the Russian retail market had a number of large networks with an annual turnover of 1 billion USD.

The regional competition has increased dramatically, which led the companies to acquire the strategy of multi-formats, engage into extensive marketing campaigns building trust and loyalty, and penetration of distant national markets. Mergers and acquisitions become an ordinary practice, the market is consolidating, while a strict distinction in the used formats between the large, medium and small companies is observed. It is notable, that over the last period of time no new foreign market players have entered the market. This is partly due to institutional barriers: the lack of transparency in the national legislation, corruption, difficulties in initiating mergers and acquisitions with Russian companies (we shall note, that similar obstacles are experienced by the federal retail networks entering local markets).

Despite of being formally regarded as the developing retail market (i.e. passed the emergence stage), in most cities of Russia retail networks still gain a moderate 15 – 20% of the total trade (the value of mature markets is 50 – 95%). However, Russian retail is showing some promising signs of development: a) formations of satellite type of network structures, with a clear core and a sustainable net of cooperation that form local markets; b) a large number of specific trade unions and organizations are being formed (e.g. the Retail Companies Association, summit "Retail in Russia", Russian union of independent networks, association "Trade League", etc.), uniting the competitors for the purpose to overcome common professional problems; c) a growing cooperative ties along the value chain, including the establishment of own brands. The largest retail network at the Russian market is "X5 Retail Group", encompassing such retail chains as "Pyaterochka", "Perekrestok", "METRO Cash & Carry", "Magnit", "Auchan" [11]. Yet the Russian retail networks are still lagging behind in the global scale. Out of Deloitte's top-200 largest retail networks of the world, Russia is represented by only two – the mentioned above "X5 Retail Group" (83rd place) and its subsidiary – the "Magnit" (124th place). While the generally high numbers of network-type retailers present at the Russian market is being explained as the result of acquiring the bankrupt shops during the crisis period, rather than consumers commitment [5].

4. Conclusion

The Russian retail market is still being at its development. Extremely high growth rates in retail, especially in the food sector (i.e. growth of the trade floor area, trade turnover, etc.), a low margin of the modern retail formats present at the market and the insufficient number of shops per capita, unconsolidated and unsaturated market structure still makes it attractive to the national and foreign investors. The uneven distribution of retail on the territory of the country follows a regular singularity – the further the market is located from the capital city of Moscow (as well as Saint Petersburg), the less is the share of retail chains. The least assimilated areas with regard to retail chains is the Eastern part of Russia, Ural in particular. That is why the strategic development priorities of retail chains and networks in Russia are focused on an active geographical expansion (i.e. the extensive growth), especially targeting those peripheral locations of the country with no retail chains available, or just a few. Although it is notable that foreign retailers are still focusing on the major markets of the country, developing and modernizing the existing businesses, while leaving aside the undeveloped areas. The strong market players are aiming to increase the number of visits, introduce new retail formats (e.g. hypermarket, supermarket, discounters, etc.) and use the strategy of multi-format retail networks, promote a narrow specialization among the single shops of the network, as well as diversify the business in general (e.g. get involved into public catering, renting, developers' services, etc.).

Table 1 summarizes the key distinguishing features of the retail market of the three different retail markets – Germany, Poland and Russia.

Table 1. Key distinguishing features of retail in the countries with mature, developing and a rapidly growing markets

Country group		
Mature	Developing	Rapid growth
Example of a country selected for analysis		
Germany	Poland	Russia
High density of retail chains, intense competition, mature retail market.	A rapidly developing market, an increasing share of retail chains and of the overall market competition. Theborderlandtradeisactivelydeveloping.	A strong differentiation of the spatial localization of the retail chains, which are located mostly around the capital city. A generally low share of retail networks.
Type of retail chains		
Strong retail chains, some of which are among the top international retail networks in the world.	Foreign retail chains occupy a high share of the national market.	National retail chains dominate over the foreign ones, yet they hold a moderate share of the total retail market. Only two of the national retailers are among the top-100 world's retail chains.
Popular retail format		
Hard discounters.	Hard discounters, supermarkets.	The format is often not clearly defined; sometimes companies are coming up with the name of your own format.

Drawing an overall conclusion of the development features of retail chains in Russia in comparison with other European countries, we can highlight the following similarities and differences. Similar to the more developed retail markets, Russia is following a regular sequence of the development stages – decrease in numbers of small shops in favor of large supermarkets, increase in the product range, market saturation and competition. Large national retailers start to form their own brands and utilize the inter-regional expansion. However, there are certain differences – national retailers are still dominating the market share of the retail chains, there is great diversity in retail formats used, and a spatially disappeared retail market. Thus, the comparison study of European retail markets suggest that the Russian retail market does not entirely follow the exact same path as other post-soviet

European countries. Meanwhile, a highly diverse national market requires further research into the differences and commonalities in-between the regions of the Russian Federation.

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