Internationalization of IKEA in the Japanese market and Chinese markets

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Abstract

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Title Internationalization of IKEA in the Japanese and Chinese markets

Supervisor Leif Linnskog

Problems Why did IKEA internationalize into Japanese and Chinese markets?

And what factors did influence IKEA's success in Chinese market but

failure in the Japanese market of the first round?

Purpose The aim of thesis is to understand the internationalization of IKEA in

Asia by comparing between Japanese and Chinese markets.

Method This master thesis based on qualitative approach in order to investigate

the internationalization of IKEA in Asian markets as a case study since it is beneficial in understanding the observation and explanation of

behavior in the certain cases.

Conclusion IKEA is considered as retailer internationalization who expands into

Japanese market as a result of deregulation and asset-based advantage while internationalize into Chinese market because of supporting environments such as political, social and economic conditions as well as transaction advantage. To success and failure, psychic distance and learning, strategic decision making process, degree of adaptation of retail offer, entry strategy, characteristics of organization and management characteristics are the influencing factors on

internationalization of IKEA in the Japanese and Chinese markets.

Keywords Internationalization, IKEA, retailer internationalization, influencing

factors

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Needless to say, any errors or shortcoming in fact or interpretation in this thesis is our responsibility alone.

Wannapa Chaletanone Wanee Cheancharadpong

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1. Introduction

To start with the first part, this introductory section presents the brief background of IKEA in Sweden and two Asian countries, Japan and China. The research problems, aim of thesis and target group are described in this part.

1.1 Background

IKEA was established in 1943 by Ingvar Kamprad in order to sell pens, wallets and picture frame. In 1958, IKEA was introduced as a leader of Swedish Furniture Company. They started from producing local furniture by local manufacturers and gained positive attention from customers. Later, they began to create furniture for flat packs and self-assembly in order to reduce storage space which is the prominent style of IKEA. They are also expanding the business line such as restaurant and kitchenware. IKEA, the largest furniture display in Scandinavia, opened the first store in Almhult, Sweden. Then, they opened more stores in other countries such as Norway, Denmark and Germany. They do not only offer inspiring home furnishing solutions to customers while keep the prices affordable for people but also locate in less-expensive areas in different countries. Nowadays, IKEA is the major retail company that experience in 36 countries around the world. Though, there are 279 of IKEA stores in 36 countries, IKEA group owns 247 IKEA stores in 24 countries and the rest is managed by franchisees in 16 countries. The only two Asian countries that IKEA group owns their stores are in Japan and China. (IKEA Group Corporate sites, n.d.)

Japan is the first country in Asia that IKEA considered to enter while most countries were closed off the outside world. The differences between culture, lifestyle and behavior make IKEA face the failure. Japan is different from North America or Europe so it is difficult to pursue success in the same way. In 1986, IKEA needed to withdraw their shop out of Japan because of difficulties and then twenty years later, they decided to reenter Japanese market for one more time. At the present, there are three stores of IKEA in Japan which are in Tokyo (Funabashi), Kokoku (Yokohama), Port Island (Kobe) and about to open another store in Osaka this April 2008.

China is the second Asia country that IKEA decided to enter. First of all, IKEA entered into China, Beijing in 1998, Shanghai in 2003, Guangzhou in 2005, Chengdu in 2006 and Shenzhen in 2008. There are five stores of IKEA in China until now and they are going to open one more stores in Daming July 2008. As we know that, Chinese market is not only a huge market with a high power purchase of populations but also has a unique culture which is different from western countries. To invest in China, IKEA provide cheap labor, abundant resources and the potential business market to comfort for its investment. However, there are some challenges for IKEA to enter because of bureaucracy system, high duty rates and customer's behavior.

IKEA creates an enterprise myth and becomes the biggest furniture retailer in the world. Japan has a unique characteristic market though it locates in Asia as same as China. Then, the company seems to need adaptation in Japanese market more than it

does in Chinese market since IKEA entered into Japan twice in order to establish in the market. In our thesis, we studied why the biggest furniture retailer internationalizes its firm into those two countries. There should be other factors behind the success and failure of IKEA in entering Chinese and Japanese markets.

1.2 Research problem

- Why did IKEA internationalize into Japanese and Chinese markets?
- What factors did influence IKEA's success in Chinese market but failure in the Japanese market of the first round?

1.3 Aim of thesis

The aim of thesis is to understand the internationalization of IKEA in Asia by comparing between Japanese and Chinese markets.

1.4 Target group

The outcome of this research can be beneficial to the retail companies and other private firms who are interested in understanding the internationalization of Furniture Company, especially in Asia.

1.5 Disposition

This thesis is separated into seven parts. First section introduces the area of subject background and problems that authors would like to investigate. Next, relevant literature review is presented in section two. Following, conceptual framework is brought up in section three. In part four, authors describe how the research and methodology are conducted and empirical data are gathered in section five. Part six presents the analyzed data of case studies. Finally, conclusion and recommendation are discussed in section seven.

2. Literature Review

This section based on the three main themes of theories that relates to our research problems. Firstly, we illustrated the retailer internationalization theory in order to understand the internationalization of Retailer Company. Secondly, concept of psychic distance and relevant factors are presented. Thirdly, concept of learning is brought up to explain the relevant factors that affect the retailer company.

2.1 Retailer internationalization theory

2.1.1 Scoping retailer internationalization

Dawson (2007) stated that internationalization is an important stage in its continuing integration into a consumer driven which globalizes economy in the retail sector. Retailing is shifting from being the sales agent for manufacturing and agriculture to be the production agent for consumers. The latest stage of retailer internationalization has been facilitated by the fundamental innovation in retailing which are the convergences of information and communication technologies. Retailer internationalization therefore can be seen within the wider discourse associated with the changes in the global economy and in the more focused temporal discourse of the shaping of retailing through successive innovations. (Dawson, 2007)

How does retailer internationalization conceptually differ from manufacturer internationalization?

Most academic study of internationalization has focused on production (for example Dunning, 1993; Calori, 2000 and Blomstermo and Sharma, 2003). International perspective on service industries often has been approached within the production oriented OLI paradigm with limited attempts (Erramilli, 1990; Dahringer and Muhlbacher, 1991; Valikangas and Lehtinen, 1991; Buckley, 1992 and Arvidsson, 1997). As discussed by Dawson (2007), in order to understand the retailing internationalization, identifying the characteristic of retailing is imperative so as to distinguish the differences between retailing and production.

1) Strategic objective

Sales growth is one important strategic objective for retailers to expand their store network to foreign markets. Beside strategic objective to increase retail sales, there are push and pull factors that are the reasons for internationalization. On the contrary, for the manufacturing firms, searching for cost reduction encourages internationalization of production capacity. It can be argued that manufacturers seek low cost production as mush as possible so that prices can be reduced and sales increased whilst retailers need to constantly lower their costs in order to compete on price and increase their sales in the market. However, both of them view sales growth and cost reduction in different ways. The strategic difference is significant not only when the firm is successful and expanding but also when seeking to retrench. In

retrenchment, manufacturing firms often reduce their cost operations on their home country and open manufacturing plants in foreign market, where the cost can be reduced, while retailers close their foreign stores to focus on their home market. Therefore, difference in strategic objective in internationalization result in difference recovery strategies of retailers and manufacturers. (Dawson, 2007)

2) Local nature of the market

The market for large international retailers is local. This excludes the Internet-based retailers. On the other hand, the market of large manufacturers can be international or even global. Hess (2004) and Wrigley (2005) stated that the local nature of the market requires retailers to be aware of local attributes of culture and local aspects of consumption. The aspects of consumption and buyer behavior are more important in retailing than in manufacturing. Retailing internationalization requires retailers to understand local consumers' cultures that can be different from those in the home market while manufacturers do not have to vary the systems and processes as retailing does.

3) The outlet is the retailer's product

What retailer sells are services not items. Their services will be bringing together in a sales outlet. Customer consumed the sales outlet. The outlets may have difference appearance each of which has different attributes, and different mixes of services. Creating economic value is the result of retail product. On the other hand, simple idea of manufacturer's product is acceptable. This difference in concept of product leads to a high level of asset specificity for the retailer. In an international context, the product of retailer is affected by social, economic and political environment. The product design and operation have the implication of considerable cultural inputs. Therefore, the process of locating the outlet as product for the retailer is very different from the location process for an international manufacturer. (Dawson, 2007)

4) Network structure of retail organizations

The structure of retailing comprises of dis-aggregated trading units that operate within a network. The network structure of retailing results in particular economic intra and inter firm relationships within firm. The efficiency of network and the flows amongst the local units are important aspects of retailer operation which exist alongside the efficiencies of the internal trading unit. The links and relationships of different local units to head office and to other local units are a significant factor affecting the efficiency of a local unit. Efficiency within local unit, for manufacturing sector, is more important than network efficiency amongst manufacturing plants. (ibid.)

5) Large number of suppliers and customers

Retailers often characterize by a large number of suppliers. The relationships of the retailer with suppliers are central nature of the retail firm. The retailer operates a large portfolio of relationships with suppliers of which are many different types from short-term transactions to long-term strategic alliances. The retailer creates value through the management of relationships with suppliers and the creation of ranges of items for sale while manufacturers generate value through transforming physical items.

Relationships with suppliers are more significant for retailers than for manufacturers. In international retailing context, the same firm can possess different portfolio of supplier relationships in different countries. In retailing, items for resale can be assembled in many different ways, and can be changed, even over a relatively short time. The need for different assortments in different local markets is particularly important in internationalization, but the firm need to have a core of items that characterizes itself (Mukoyama, 2000). Retailer has a dynamic nature of assortments which means relationships with suppliers are more dynamic in both national and international context. Manufacturers often try to standardize the products they make while the retailers attempt to produce their items and products responding to the local needs of their potential customers. The need for alignment of managerial style with consumer culture reflects the high level of customer contact of retailers. (Dawson, 2007)

6) Cost structure

The cost structure of retailing and production are not similar. This results from the different nature of processes in the firm and competition between firms. Non-price competition and price discrimination policies are tactics which use much more in retailing. Retailing has great variations in costs and competition because demand and competitive processes are local. This leads to local monopoly power for retailers. Variation in costs of retailing results from rapid changes in prices and nature of consumer demand. As a result, labor requirement of retailers is different from those of manufacturing. (ibid.)

2.1.2 The internationalization process of retailing

International retail has been studied within strategic, marketing and foreign direct investment before discovering the classical or neo-classical assumptions of international activity. Thus, the necessary conditions of international activity are included in that activity. Sternquist (1997) identified the asset-based advantages which result from the market-based antecedents of change. The market will depend on a process of "structural competitive challenge" which will lead to redefinition of the asset that possess by local firms (Alexander 1997, cited in Alexander and Myers, 2000, pp. 340). Therefore, internationalization process of retailing has to be viewed as a company-based management process and a market-based process (Alexander and Myers, 2000). The existing of comparative and absolute advantages within the international environment is emphasized which means that markets possess some advantages. Then, consideration has to be given to the unequal structural conditions. The factors that facilitate retail operation between the market of origin and

According to Alexander (1997, cited in Alexander and Myers, 2000 pp.340), the market will be subject to a process of "structural competitive challenge" and will lead to a redefinition of the assets that local firms possess.

² Comparative advantage will occur when a country has a comparative advantage in the production of a good if it can produce that good at a lower cost relative to another country. Absolute advantage will occur when a country has an absolute advantage in the production of a good relative to another country if it can produce the good at lower cost or with higher productivity.

exchanging between markets must be understood (Alexander and Myers 2000). Linder (1961) claimed that markets which have the same level of development will be attractive for international retailers since international expansions are the extension of domestic activity.

Alexander and de lira e Silva (2002, cited in Alexander, Rhodes and Myers, 2007) explained the growing of retail investment on emerging market during the 1990s. Geopolitical, economic and competitive condition change direction of expansion of retailers from higher order markets to lower order markets. Retailers will have a variety of options in internationalize to foreign market which depend on some factors such as access to capital, area of activity and control and risk attitude of management. These things affect entry method strategies and may increase or reduce the attraction of host markets. (Alexander and Myers, 2007)

Dunning (1981, 1988) suggested that there are three key factors driving of internationalization. First, ownership advantages were seen as motivating force for internationalization. Second, environmental constraints were factors that shape market entry mode. Finally, location specific advantage was a factor which influence firm's direction of expansion.

In the international product life cycle (IPLC), Vernon (1966) highlighted the significant of market of origin in the development of products. The diffusion of product to secondary and tertiary market through the actions of companies within the primary market and companies within the secondary markets are described by the international product life cycle. This concept has implication for retailers when they internalize in secondary market. (Alexander and Myers, 2000)

The framework developed by Alexander and Myers (2000) will use to illustrate the internationalization process of retailing. The framework is viewed from corporate perspective and based on characteristics of the retail organization within the context of markets.

Asset-based and transaction-based advantages are identified as the drivers of change. In the context of retailing, they are conceptual and technology-based or skills-based advantages which may be brand owned by retailer or economies of scale exploited by the operation. (Alexander and Myers, 2000) Brown and Burt (1992, cited in Alexander and Myers, 2000, pp. 81) described asset-based advantages as "a retail brand, with its associated image for consumers, across national borders". These advantages are the innovation product in the origin market which may be derived from the social, economic or cultural characteristics of the market place or development of retail structure. Therefore, advantage of a retailer may derive from the opportunity to develop a format within the origin market in a way that has not been possible in other markets.

Sternquist (1997) suggests transaction based advantages as volume buying. Transaction based advantages are things connected with the companies' abilities to move product from producer to customer. Volume buying may be perceived as advantages gained from operating in one market and benefit receives from economic and corporate development. Consequently, transaction advantages which attained from multinational operations are experienced later in the internationalization process.

Internal competencies within the retail organization will determine the capability of the retailer to internalize. Vida and Fairhurst (1998) have noted that this character of firms may be determined by qualities and capabilities of leadership to organize different areas within the firm in an international context.

In figure 1, the model developed by Alexander and Myers (2000) explained that the assets possessing by an organization are the driver of changes. This occurs by good feature of firm's operation and development within origin market.

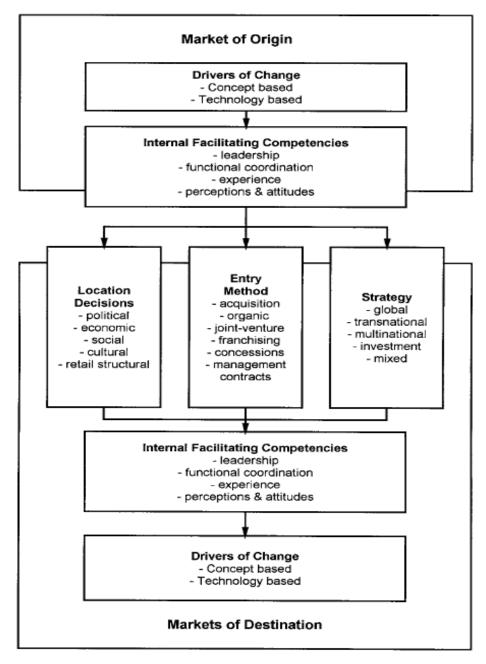


Figure 1: Operational internationalization (Alexander and Myer, 2000)

The internal facilitating competencies are the way the firm transfers the advantages which are concepts or skills within international markets. In the internal facilitating

competencies, firms will adopt strategies, choose entry methods and location to the expansion of the firm. (Alexander and Myers, 2000)

The drivers of change and the ability of managers to exploit advantages will determine the location decisions, entry method and strategy. Therefore, company-specific is the factor that determines the internationalization process which will occur only in environment that supports that process. (ibid.)

The location decision, entry method and strategy will in turn change the internal facilitating competencies of the organization since firms have different capabilities in learning in markets where they operate. The organization's capability to respond to the international market environment will hence influence the drivers of change. (ibid.)

2.2 The concept of Psychic distance

Vahlne and Wiedersheim-Paul (1977), Nordstrom and Vahlne (1994) and Lee (1998) defined that "psychic distance is the distance between home market and foreign market resulting from the perception, learning and understanding of business differences". Then, O'Grady and Lane (1996) refined that psychic distance is a degree of uncertainty about foreign market in a firm and argue that psychic distance is also the consequence from both cultural differences and other business difficulties that present barriers to learning about market and operating there.

Psychic distance is the combination of the word "psyche" and "distance" (Evans *et al*, 2000, pp. 70). Psyche refers to the mind or soul (Sykes 1987, cited in Evans *et al*, 2000) but it is not the simple existing of external environmental factors that decides the degree of distance between home market and overseas market. On the contrary, it is the perception of individual of these factors that constructs the position of psychic distance while distance relates to similarity and difference in term of the amount of the separation between two points. (Evans and Bridson, 2005)

Although the perception of cultural distance do not gain prominent attention as psychic distance, cultural distance is defined as international marketer's perceived socio-cultural distance between home and foreign country, namely, differences in language, business practices, political systems and marketing infrastructure (Lee, 1998). Cultural distance is derived from Hofstede's (1991) aspect of national culture as culture shapes the way people think, behave and evaluate (Hofstede, 2001; Schneider and Barsoux, 2003, cited in Hoffman, 2007). Though, cultural distance and psychic distance are closely related and are conceptualized as inter-country-specific distances, psychic distance focuses on inter-firm distances and has influenced by the experience of the firms involve (Hallen and Wiedersheim-Paul, 1979; Nordstrom and Vahlne, 1993). Nevertheless, the findings of Nordstrom and Vahlne (1993) supported that the aspect of psychic distance and cultural distance are different but it is an overlapping phenomena while Lee (1998) treats cultural distance as synonymy with psychic distance. Then, we agree to use the term of cultural distance or psychic distance as the same meaning in this thesis.

Psychic distance is a concept that significantly influences on the international expansion which it can be the driving force of expansion patterns of international

business action (Alexander *et al*, 2007). Thus, firm tends to start internationalization by entering into market that they can most easily understand and perceived market uncertainty is low (Johanson and Vahlne, 1990), explicitly, there is fewer cultural and psychological barrier to cross (Nordstrom and Vahlne, 1994). Therefore, they expected that similar market will lead to greater success (Johanson and Vahlne, 1977, 1990, Johanson and Wiedersheim-Paul, 1975; Nordstrom and Vahlne, 1994 and Vahlne and Wiedersheim-Paul, 1973, 1977).

In figure 2, Evans (2000) found that psychic distance, the determinant of market expansion patterns, cannot explain performance between countries alone. Then, there is a number of other factors associated with international process of retailers that should be considered as well. Evans (2000) suggested that other factors, namely, strategic decision making process, degree of adaptation of the retail offer, entry strategy, organizational characteristics such as structure of decision making, retail format, size and ownership and international experience can be partly supported international expansion of retail firms. Moreover, management characteristics such as country of origin and experience in the foreign market are also included in his framework.

Firstly, strategic decision making process is the factor in order to make a decision in entering overseas market. Then, managers will have to obtain information in order to deal with environmental uncertainty which is a result of cultural and business differences though the information is limited. (Evans *et al*, 2000) In this case, the international success comes from appropriate planning and research into consumer preferences, competition and possible locations (White, 1995). On the contrary, lack of research and poor understanding of the market may lead to poor international performance (Clarke and Rimmer, 1997 and White, 1995).

Secondly, Morosini (1994a; 1994b, cited in Evans *et al*, 2000) found that degree of adaptation of the retail offer involves since the relationship between psychic distance and organization performances seem to be different by the adaptation strategy they adopted. Standardization and adaptation were thought of as binary continuum which most companies adopt a strategy somewhere between the two pillars (Chhabra, 1996; Ozsomer *et al*, 1991; Whitelock and Pimblett, 1997). In an international retailing context, McGoldrick (1998), McGoldrick and Blair (1995), McGoldrick and Ho (1992) expressed that "the degree of standardization or adaptation refers to factor of retail offer which includes commodities quality, range and fashion, level of services, facilities, layout, atmosphere, location, quality of display, advertising, general character, trustworthiness, price and image in general" (cited in Evans and Bridson, 2005, pp. 73).

The study of Boddewyn (1989, cited in Evan *et al*, 2000) found that US multinational companies operating in European Common Market between 1973 and 1993 used the standardization of market practices and later in 1990s, it turned toward greater adaptation. Boddewyn (1989, cited in Evan *et al*, 2000) also asserted that differences in government regulations, consumer behavior, nationalistic sentiments, and competition and technique requirements are the key factors that hinder standardization. These findings show that cultural and business differences tend to be the consequence of different marketing strategies. Furthermore, the study of Clarke and Rimmer (1997), McGoldrick and Ho (1992) and White (1995) argue that the

failure of international retail operations are the result of lack of adaptation of retail offer while the success contributed to the willingness to adapt its concept in local situation (Dupuis and Prime, 1996). Then, the retailers who adapt to the new environment will perform better than those who solely use standardized approach. Then, understanding cultural and business differences will be the guide to adapt for their suitable condition (Evans and Mavondo, 2000).

Thirdly, Entry strategy deals with the level of investment and financial risk where acquisitions and joint ventures involve high financial risk while licensing and franchising smooth the progress of the expansion with lesser degree of risk (Barkema *et al*, 1996; Kaynak, 1998; Manaresi and Uncles, 1995 and Treadgold, 1998, cited in Evans *et al*, 2000) In these modes of entry, retailers can gather research and planning with partner in overseas market so as to reduce financial risk. Moreover, retailers may develop franchising and joint venture entry strategies to handle with the distance market in order to minimize financial exposure. Then, psychic distance will play as a pivotal role for retailers to choose the fitting mode of entry. (Evans *et al*, 2000)

Fourthly, the characteristics of organization comprise of structure of decision making, retail format, size and ownership and level of international experience. Structure of decision making concerns organizational performance and firm's decision making structure. Martenson (1987, cited in Evans *et al*, 2000) supported that centralized decision making structure will lead to greater standardization of the retail offer between countries. Conversely, a decentralized decision making structure can reduce not only distance between home and oversea market but also bring negative effect of cultural and business differences on organizational performance (Evans *et al*, 2000). For retail format, retailers may adapt the format that acceptable to the foreign market which retail format may result in strongly control franchising whilst joint ventures or acquisitions that suitable for mass merchandise retailers (Evans and Bridson, 2005).

Size and ownership is the next factor that relevant to choice of entry in international expansion. Agawal (1994, cited in Evans *et al*, 2000) agrees with Alexander *et al* (2007) that size of home market will be a main determinant on international activity (Alexander *et al*, 2007). To clarify, large firms have a better chance to internationalize since they can acquire resources and accept higher risk (Evans *et al*, 2000). In addition, White (1995) indicated that larger retailers tend to use acquisition to enter foreign market while small retailers seem to use franchising or agent instead (Evans *et al*, 2000). Next, the study of Cavusgil and Zou (1994) suggested that the performance of export ventures has positive relationship with both international experience of firm and performance of foreign business enterprise. It can be concluded that experience in foreign markets will lead to positive relationship of psychic distance and organizational performance (Evans *et al*, 2000). Since our case study is a large organization but expands internationally in the different size of stores, we decided to concentrate on the size of stores as a characteristic of organization instead of the size of company.

Lastly, Management characteristics consist of country of origin and experience in the foreign market that influence on retail operation. Culture, political and legal between home and foreign markets impacts the market strategy so as to adapt into new environment which are resulting from psychic distance and standardization of retail strategy (Martenson, 1987). Then, to expand into a particular country, it is necessary

to carefully consider country's regulations on overseas investment (Grewak and Dharwadkar, 2002, cited in Huang and Sternquist, 2007). In addition, the more managers have direct experience in host market, the more gap of psychic distance will be reduced as well (Evans *et al*, 2000).

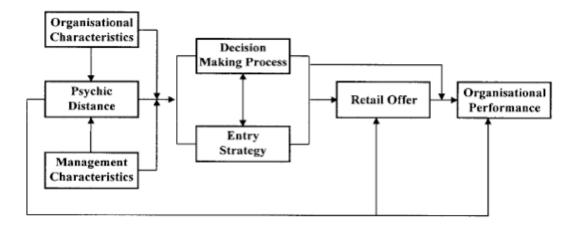


Figure 2: Theoretical framework of psychic distance and the performance of international retailers (Evans et al, 2000)

2.3 The concept of learning

2.3.1 Uppsala Internationalization model

The concept of Internationalization process involves the role of development of knowledge in overseas markets and operations on one hand and balance with a rising commitment of resource to foreign markets on the other hand. In figure 3, Internationalization model was separated in two perspectives, namely, State aspect and Change aspects. State aspect consists of market commitment and market knowledge while change aspect consists of current business activities and commitment decision. (Johanson and Vahlne, 1990)

The internationalization of this model can be distinguished in two patterns. Firstly, firms will start to invest in a few nearby countries instead of investing in many countries promptly. Secondly, firms will invest in specific country by learning with psychic distance in new markets. (Jahanson and Vahlne, 1990) Therefore, firms are willing to conquer market after another, only when they can defeat the cultural barriers and obtain their own experience (Carlson, 1996).

In Uppsala model, there are two perspectives of learning which can be defined between general knowledge and marketing-specific knowledge. General knowledge focuses on marketing method or types of customers while marketing-specific knowledge concerns with business climate, cultural pattern, structure of market system. (Johanson and Vahlne, 1977) Marketing-specific knowledge inclines to keep the firms within its current business whereas general knowledge can be expected to be a driving force to take steps in new direction (Forsgren, 2002).

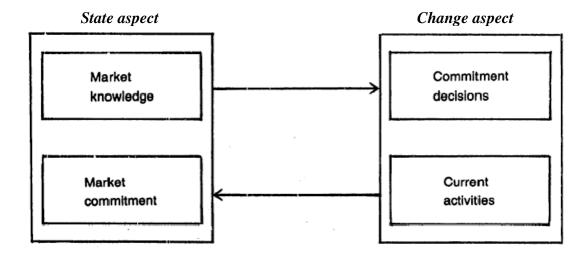


Figure 3: Basic mechanism of Internationalization-State and Change aspect (Johanson and Vahlne, 1977)

Consequently, the essential issue of Uppsala model that deals with learning affects investment behavior of firms, both organization learning and organization behavior (Johanson & Vahlne, 1977, 1990). Assumptions of Uppsala model relates to the lack of knowledge about foreign market (Johanson & Vahlne, 1977) which is the main problem. However, this knowledge can be gained in order to enter in new environment. Second assumption is decision on investing abroad will be made through market uncertainty. Then learning process will carry learning by doing (Johanson, 1988; Lindblo, 1959 and Quinn, 1980). In the last assumption, knowledge is dependent on individuals and cannot be transferred, that is, experience is a crucial factor that can lead to opportunities in market (Johanson & Vahlne, 1977). Although, own experience is significant, firms may also acquire knowledge by imitation learning such as observing (Bjorkman, 1990, 1996; Di maggio & Powell, 1983; Haveman, 1993; Haunschild & Miner, 1997; Huber, 1991 and Lewitt & March, 1988) and hiring people with knowledge to serve as a short-cut (Barkema & Vermeulen, 1998 and Huber, 1991). In this model, firms seem to stick with particular market in order to compete by learning more about that market which is called a reactive aspect instead of trying to find new solutions that called proactive aspect (Forsgren, 2002).

In internationalization process, Forsgren (2002) proposed that experiential learning and incremental behavior have the different influences when firms learn from their own experiences in a specific market. Firms will obtain tacit knowledge that can reduce perceived uncertainty and increase the need for incremental behavior. Therefore, experience brings the high confident in making decision and expecting to reduce the entry cost.

Furthermore, the concept of learning in Uppsala model (Johanson and Vahlne, 1977) also leads to the study of the ability of firm by Erikkson and Chetty (2003). Erikkson and Chetty (2003) explained that since the firms want to reduce the lack of market knowledge, firms will try to acquire more experience, information, relationship and customer network which this capacity is considered as absorptive capacity of firm.

Cohen and Levinthal (1990) defined that absorptive capacity is the ability of a firm to recognize the value of new, external information, understand it and apply it in

commercial ways by using prior knowledge, the same as Peteraf (1993) and Teece (1982) suggested that absorptive capacity relates to practical knowledge that can be transferred from one market to another in the firm's international expansion. External knowledge acquisition and experience with knowledge is the key of potential absorptive capacity (Fosfuri and Tribo, 2008). Then, Absorptive capacity refers to the ability of firms to use their prior experience combined with knowledge and diverse background to recognize value of new information and develop into something creative in a current business (Erikkson and Chetty, 2003).

Knowledge is described as the vital resource of firms and economies (Drucker, 1993; Quinn, 1992; Reich, 1992). In addition, Penrose (1959) created knowledge based theory to perceive firms as an organization of knowledge in structure of coordination, cooperation, communication and learning. Then, Lack of knowledge can refer to lack of relationship, resources and cooperation, especially in business relationship, which can be the significant barrier factor in entering new markets or expand within existing markets (Erikkson and Chetty, 2003).

In figure 4, three hypotheses were proposed by Erikkson and Chetty (2003) above in this case. First, the more absorptive capacity leads to the more perception of foreign market knowledge. Second, absorptive capacity will be higher as gaining experiences in investing with foreign countries. Third, absorptive capacity will be increased by experiencing with specific customer in specific country.

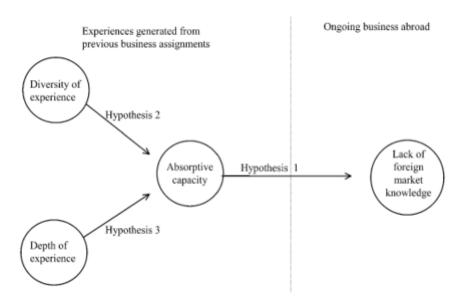


Figure 4: Hypothesized structural model of the effect of experience on absorptive capacity and of absorptive capacity on ongoing business (Erikkson and Chetty, 2003)

In the results of figure 5, Erikkson and Chetty (2003) found out that firm's absorptive capacity consists of two constructs which are Dyadic absorptive capacity and Customer network absorptive capacity. Though, absorptive capacity is separate in two entities, both of them are still in mediate level. On one hand of the first hypothesis, the outcome is revealed that the more Dyadic absorptive capacity the firm has, the less it perceives a lack of knowledge since dyadic relationship involves more routine,

straightforward information that easy to learn and lead to reducing lack of market knowledge. On the other hand, the more Customer network absorptive capacity the firm has, the more it perceives a lack of foreign market knowledge since network ties relate to innovative knowledge which is complicate to apply.

In the second hypothesis, it has been proved that the more diversity of firm's international experience, the more dyadic relationship experience it gathers since diverse experience can be applied through routine or explicit knowledge but not customer network.

In last hypothesis, the result showed that dept of experience with specific customer does not increase Dyadic absorptive capacity but increase Customer networks absorptive capacity as dept knowledge with a customer can be used to increase knowledge of network context of customers in business.

Therefore, in order to overcome lacking of foreign market knowledge, dyadic relationship and customer network relationship involve not only competitors, suppliers, customer and government but also moderate relationship between firms' profitability and growth (Zahra and Hayton, 2008). Collaborating through successful integrating and exploitation of new knowledge and capabilities from foreign markets (ibid.) as well as R&D collaborations can also involve ability to understand and transfer knowledge of the firm (Fosfuri and Tribo, 2008).

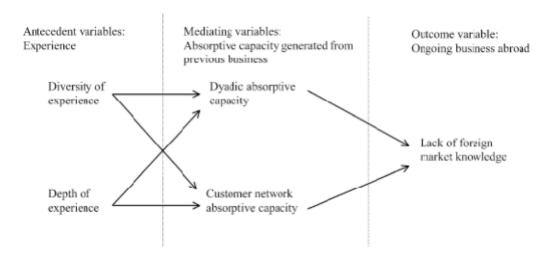


Figure 5: A revised hypothesized model of the effect of experience and absorptive capacity in an ongoing business (Eriksson and Chetty, 2003)

3. Conceptual framework

Conceptual framework is based on abovementioned literature review. The applied model for this research is depicted in order to use as a whole picture for analysis and make it easier for readers to follow by proposing a new theoretical framework.

To understand the internationalization and the factors that impact failure and success of IKEA in Japanese and Chinese markets, the suitable three main frameworks are proposed. Firstly, models of Dawson (2007) and Alexander and Myers (2000) are applied to explain why IKEA internationalize in these two markets. Secondly, theoretical framework of psychic distance of international retailers depicted by Evans, Treadgold and Mavondo (2000) is used in order to explain the factors of success and failure. Thirdly, the concept of learning in Uppsala internationalization of Johanson and Vahnle (1977) that involves the concept of absorptive capacity on foreign market knowledge pictured by Eriksson and Chetty (2003) are applied to explain how IKEA cope with problems. These above mentioned theme frameworks will serve as a ground of the new theoretical framework in order to answer the research problems.

First of all, we used the concept of Dawson (2007) to show why IKEA is retailer. According to Dawson (2007), the characteristics of retailer that are different from manufacturer are strategic objective, local nature of the market, the outlet of the retailer, network structure of retail organization, large number of suppliers and customers and cost structure.

Then, the internationalization process of retailing developed by Alexander and Myers (2000) is applied to describe the internationalization process of IKEA to Japanese and Chinese markets. In our framework, the company possesses some advantages that are identified as the drivers of change. These drivers of change are asset-based and transaction-based advantages. Asset-based advantage is defined by Brown and Burt (1992, P.81, cited in Alexander and Myers, 2000) as "a retail brand, with its associated image for consumers, across national borders". Sternquist (1997) conceptualized transaction based advantages as volume buying which connected with the companies' abilities to move product from producer to customer.

In figure 6, the internationalization of IKEA is illustrated to answer the first research problem. Firstly, the concept of Dawson (2007) is discussed to describe why IKEA is retailer. Next, the driver of changes depicted by Alexander and Myers (2000) is applied to explain why IKEA is internationalized in Japanese and Chinese markets. These two elements will lead to the international expansion of IKEA to Japan and China respectively.

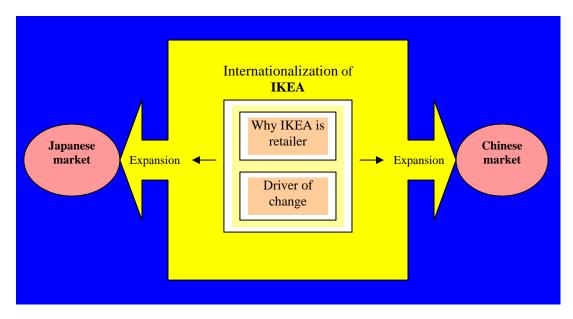


Figure 6: Theoretical framework (research question 1)

To understand the factors that effect success and failure, there are many significant factors that should be considered in order to explain IKEA's expansion to Japanese and Chinese markets respectively. Since psychic distance cannot be explain alone. Then, the relevant factors are provided, that is, strategic decision making process, degree of adaptation of the retail offer, entry strategy, organizational characteristics, and management characteristics (Evan *et al*, 2000). Therefore, those factors that display in figure 7 by using six square boxes are used to answer the second research problem.

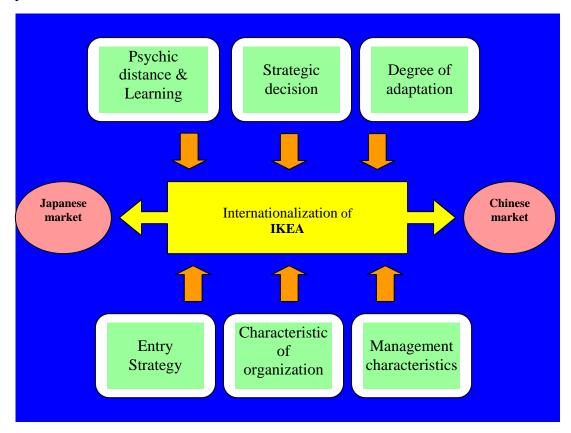


Figure 7: Theoretical framework (research question 2)

The first factor is psychic distance and learning, firms have to have capacity to learn new market in order to reduce lack of market knowledge and psychic distance between home and host country. Secondly, obtaining knowledge and dealing with environment are described in Strategy decision. Thirdly, degree of adaptation in retailer involves standardization and adaptation in fashion, quality and level of service. Fourthly, entry strategy deals with level of investment and financial risk in expanding. Fifthly, characteristics of organization involve international experience and timing to entry in distance markets. Lastly, management of characteristics and experiences in the foreign market play an important role in determining retailer performance which relate to retail operation in culture, political and legal between markets. (Evan *et al.*, 2000)

However, concept of learning did not help to understand how firm adjust to the psychic distance and new environment only, but the concept of learning in Uppsala internationalization of Johanson and Vahnle (1977) and the concept of absorptive capacity on foreign market knowledge pictured by Eriksson and Chetty (2003) also involve in explaining other relevant components as well. That is firm, in order to learn in new market environment, must have capabilities to acquire more experience, information, relationship and customer network resulting in decreasing of psychic distance between home and host market. Then, learning and firm's learning capabilities are expected to be the crucial complement of the firm in internationalization (Forsgren, 2002).

In figure 8, we have integrated figure 6 and 7 together to display all components that explain both internationalization of IKEA and influencing factors. Therefore, the figure 8 illustrates our whole framework that we used as a tool to answer our research problems.

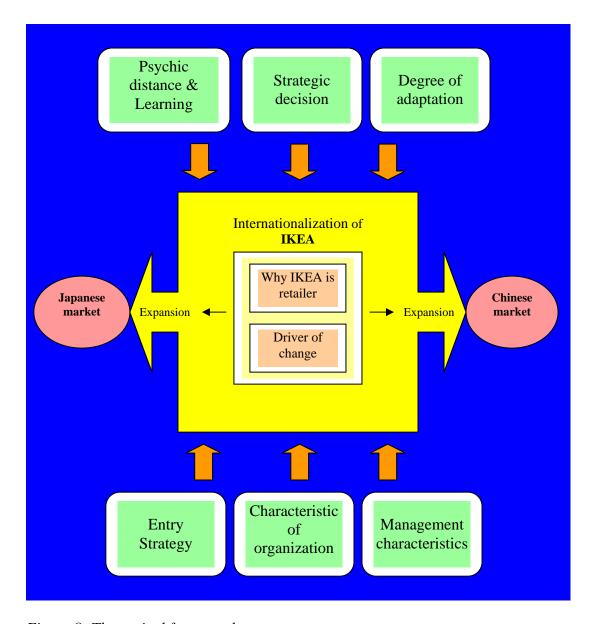


Figure 8: Theoretical framework

4. Methodology

This section presents the tool that authors used to investigate the result by explaining methodological approach we choose and method for data collection is also discussed.

4.1 Methodological approach

The methodological approach is distinguished between two main kinds of method which are quantitative and qualitative approach. Quantitative approach is based on a systematic approach that comprised of formal process, measuring concepts and variables while qualitative approach is based on ground theory of Glaser and Strauss (1967).

However, our research is based on realist research which seeks to offer generalisable explanation but it is less likely to offer prediction (Fisher, 2007). We recognized that the internationalization of the company cannot be measured but it is worthwhile to study these subjects and find out the mechanisms that lead to events (ibid). Furthermore, we believe that the internationalization theories and concept of learning can be verifiable and have some generalisability in our case (Fisher, 2007). This research uses the comparison of the two case studies to explain and understand the internationalization of IKEA in Japan and China. It took IKEA tremendous efforts to establish and success in the former country while the latter took less effort in order to success. Interestingly, the study to understand success and failure in the two cases are described and compared.

In our case, we used qualitative approach in order to investigate the internationalization of IKEA since it is beneficial in understanding the observation and explanation of behavior in the certain cases, IKEA in the Japanese and Chinese markets. Not only is qualitative approach advantage in flexibility and investigation but also can present a more realistic point of view to readers for deeper understanding. Although, risk of collecting more or less information can be involved as a shortcoming of qualitative approach (Sarantakos, 1998), qualitative approach still serves as the most suitable application for this research in order to explore behavior of company since it can not be measured by quantitative approach.

Selltiz *et al* (1976, cited in Sarantakos, 1998) suggested that the forms of exploratory studies refer to reviewing of literature and analyzing of case study. Case-study research relates to studying individual cases (Kromrey, 1986, cited in Sarantakos, 1998) and according to Yin (1991) the case study is used when the borders between phenomenon and context are not clearly evident. This empirical inquiry will use multiple sources of evidence and investigate a contemporary phenomenon within its real-life context (Yin, 1991). In this case, the information from literatures that relates to the objective of our study is gathered and a case study of IKEA is proposed to use as a path of exploration in internationalization aspect.

4.2 Selection Criteria

Two cases of IKEA in different markets, Japanese and Chinese market, are chosen to analyze since these two markets are the only distant countries in Asia that owned by IKEA. The rest of IKEA store in Asia operate under franchisees. Furthermore, these two countries are the countries that IKEA expanded in Asia after experiencing internationalization in Europe and America. Japan and China are different in many perspectives such as culture, lifestyle, economic and political which impact the internationalization of IKEA in the different ways. Interestingly, comparative cases of IKEA's internationalization in the Japanese and Chinese markets are implemented in this thesis in order to understand the similarities and differences in these two significant markets resulting in success and failure.

4.3 Method for data collection

We have used only secondary data in our research rather than primary data owing to limitation in accessing the information from the primary source. The reason is discussed in the following sub-section.

4.3.1 Primary data

The researchers have to collect data themselves when the secondary data is very limited for researchers or they are not enough to answer a particular research problem. This is known as primary data. The great advantage of primary data is that it is collected in first hand for a particular research purpose (Ghauri and Grohaug, 2002). On the contrary, there is some advantage for using primary as well. For instance, collecting data can take a long tome and involve a lot of costs. It is sometime difficult to get access to those data. Furthermore, the reliability of the research can under debate if the appropriate tools to measure or a proper method to analyze data are not carefully chosen (ibid). In our research, primary data will not be used due to the difficulty in accessing the data since IKEA has expanded to Japan and China for long time. Thus, it is difficult for us to interview the manager who was in charge at that time. Moreover, executives continually change and so finding information from those persons are quite intricate for us.

4.3.2 Secondary data

The using secondary data provides a lot of advantage. It saves a lot of time and money and can suggest a suitable method to solve a specific research problem. In some cases, the secondary data validates the primary data collected from difference sources and gives the platform to compare with (Ghauri and Grohaug, 2002). In our research, secondary material is used to accomplish this study. Secondary sources are combined with public documents such as literatures, articles, journals, magazines, textbooks and internet sites such as database, websites, and news were gathered. Though the using of secondary data has risk in that its purpose of data collection can be different from those of researchers (ibid), we reduce the risk by comparing data from different sources and related them to our research in order to make it more reliable. Information

is mainly received from news, articles and other thesis on internet sites and then we compared them to get consistent and related data.

To sum up, all information is collected from secondary sources to analyze our cases. A multiple sources of information can provide readers an understanding the phenomenon (Fisher, 2007) and give a good background in analyzing data.

5. Empirical data

The aim of this part is to present all information we gathered. Initially, authors provide the history of IKEA, follow with IKEA in Japanese market which consists of first round and second round. Later, IKEA in Chinese market is described. Moreover, an Overview, characteristics of furniture market and IKEA in these two countries, Japanese and Chinese markets, are presented.

5.1 Path of IKEA

The name IKEA is derived from the founder's initials (I.K.) plus the name of farm and village, Elmtaryd (E) and Aguunaryd (A). At the beginning, IKEA was founded in 1943 by Ingvar Kamprad. Firstly IKEA sold pens, wallets, picture frames and watches in low price. Later in 1951, Kamprad turned to focus on furniture which is produced by local manufacturers in the forest close to Kamprad's home. Then, the first IKEA catalogue is published as he saw the chance in selling furniture on large scale.

In 1953, IKEA first opened furniture showroom in Almhult, Sweden with the concept of flat packs and self-assembly which this design is emerged since one of IKEA's first co-workers removed the legs of the LOVE table in order to fit it with a car. Therefore, this discovery became the concept of IKEA. The prominent concept refers that all furniture can be reduced distribution, storage cost and easier for customers to buy things in compact boxes and self-assemble later at home.

IKEA first store also opened in Almhult, Sweden in 1958 with 6,700 square meters of home furnishings. At that moment, IKEA is considered as the largest furniture display in Scandinavia. In 1963, the first IKEA store outside Sweden is opened in Oslo, Norway, followed with Stockholm, Sweden in 1965 and other countries, for instance, Denmark, Switzerland, Germany and so on.

At present, IKEA Group is owned by INGKA Foundation which based on Netherlands since 1982 which INGKA Holding B.V. is the parent company for all IKEA Group companies. Furthermore, the IKEA Group also has 31 distribution centers in 16 countries for supplying goods to IKEA stores and 45 trading services offices in 31 countries by developing close relationship with 1,350 suppliers in 50 countries. IKEA owns 279 stores in 36 countries which 247 stores belong to IKEA Group in 24 countries and the rest belongs to franchisees in 16 countries. The only two Asian countries that owned by IKEA group are Japan and China.

The IKEA vision is very simple to offer good design and function of products at low prices which mean simple yet trendy designs as they create the design concept "We think creatively to make innovative affordable products". They offer well-designed, functional home furnishing products at low price as a center of everything they do and do everything a little better, a little simpler and more efficiently. IKEA builds the partnership with consumer, uses design and creative idea and searches for cheapest

production facilities by purchasing large quantities. This makes IKEA can offer the lowest price on their products with blue and yellow as the trademark's color.

In every store, IKEA displays in room setting in order to inspire home furnishing solutions to customers. IKEA stores locate in less-expensive areas so as to take advantage of self-service and assembly concept. They also provide other support functions such as restaurants, bistros, children's playroom where customers can drop their kids, large area of parking lot and Swedish Food Markets.

Additionally, besides selling furniture with lowest price, IKEA also concern the environment as they develop environmental policy so as to take responsibility for all activities conducted within its business. For instance, they become the member of UNICEF by donating funds for children in order to re-build school in Kosovo and corporate with child rights project of UNICEF in India as well as joining the WWF. Moreover, IKEA also sees the important of climate change by dealing with greenhouse gas that generated from IKEA. (IKEA Group Corporate sites, n.d.)

5.2 IKEA in Japanese market

5.2.1 First round

1) Japan overview

After 1950s, Japan economy grew rapidly from less-developed to developed country. On average, Japan's annual GDP growth was about 10 percent from the 1950s until the 1970s (National Economies Encyclopedia, n.d.) and became the world second largest in 1986 behind United States. Japan possessed the competitive strength in industries steadily. The economic growth still kept moving successfully until in 1973, Middle East oil crisis also occurred, following with a second oil crisis in 1979 that brought to the economic recession. Later in 1985, the value of yen rose increasingly which was three times of its value in 1971 under fixed exchange rate system. Corporate investment, stock prices, new equity turned to rise exceedingly. Finally, government considered to tighten the value of asset, especially land, with monetary policies while higher interest rates sent stock prices into a downward curved. Japan encountered extensive speculation in the real-estate and domestic commodity markets which made Japan suffering from double-digit inflation. By the end of 1990s, the recession known as the collapse of the bubble economy occurred. (Japan Fact Sheet, n.d.)

2) Characteristics of Japanese Furniture Market

For Japanese wood furniture market, it was reported that the furniture market in retail furniture market value of \$ 10 billion in 1982 and \$ 6.7 billion for the wholesale level in 1984. The imports of wood into Japan were only a small part of total market which most of them are shipped from East Asia such as Taiwan while most wood furniture from Europe and United States is imported by specialty trading companies and specialty import furniture stores. Demand for Western style furniture also grew during this period and Japan maintains no regulatory barriers to import business furniture. (Business America, 1988)

3) IKEA in Japan

In the mid 1970s, IKEA, Swedish home-furnishings giant company, decided to enter Japanese market as the economic expansion in Asia emerged (Lane, 2007) by launching a franchising deal in 1974 (Wijers-Hasegawa, 2006). However, IKEA have been through a rough time to survive in 1970s and they eventually decided to pull out of Japanese market in 1986 (Lane, 2007). IKEA encountered with failure as a result of rush jumping into Japanese market, the size of store as too small and only few Japanese consumers were willing to assemble IKEA's do-it-yourself kits (Carpell, 2006). At that moment, IKEA also needed to deal with strong local competition such as Mujirushi Ryohin (known outside Japan as Muji) and Nitori. Muji, founded by Ryohin Keikaku, has occupied more than hundreds of shops. Muji captures the demand of younger consumers and well-known as the "no brand" homeware retailer. (News Gate NY, n.d.) Muji also provides simple design but low cost while Nitori sells furniture which gains the advantage of low-cost import from factories such as China, Thailand and Indonesia (Carpell, 2006).

Anders Dahlvig, IKEA group president and chief executive, emphasized that "the last time the entered in 1970s, it was way too early to come to Japan". He believes that it was a big mistake for IKEA to launch in Japanese market that early but it was the appropriate decision to withdraw and wait until they are ready because he claimed that one of problems occurred as they cannot provide a sufficient supply network. (News Gate NY, n.d.)

5.2.2 Second round

1) Japan- overview

In 1990s, Japanese government tried to keep inflation in low rate and restructured the financial sector in 1996 by producing "Big Bang" reform measures. Later, Asian financial crisis emerged and was considered as external economic factor of downturn. Therefore, Japanese economy was recovered with sluggish growth in April 1999 but it was considered as a temporary phenomenon since investment in factories was weak and Japanese economy also major relied on foreign demand and communication technologies. During this period, barriers to foreign consumer goods have been removed but some restriction still limited the flow of imports. (National Economies Encyclopedia, n.d.)

However, Japanese economy entered into an economic recession over again as an effect of terrorist attacks in September 11, 2001. Japan encountered long run stagnation of Japanese economy along with the problem of non-performing loan and economic recession that hamper economic growth while economic structure was inflexible for economic environment. Nevertheless, in 2002, Japanese economy moved to a recovery phase though the war in Iraq had impacted on them. After ending the war in mid 2003, investment in plant and equipment were increased. (Statistical Handbook of Japan, n.d.) Services sector such as financial, retail and tourism is growing continually. Still, Japan is the world's second largest economic power and the second most technologically advanced economy after the United States. (National Economies Encyclopedia, n.d.)

2) Characteristics of Japanese Furniture Market

During this period, Japan's home furnishings sector has expanding and growing rapidly. This expansion also gives the opportunity for not only Japanese company but also foreign company to grasp the chance since in 2001, Japanese government acted the deregulation of Japanese Large Scale Retail Store Law in order to encourage and enhance the investment in Japan. This enactment leads to spreading out of Furniture market over again. For customer side, consumer has changed the way they thought of products in household by encouraged to search for home management solutions. Home furnishing stores are emerged enormously and willing to offer the different styles such as modern style, natural styles and ethnics style that integrates earthy and hand-made elements to different styles of customers. (Jetro Japan External Trade Organization, n.d.)

3) IKEA in Japan

Since IKEA are not successful from the first time they entered in Asia, IKEA has planned for five years in order to return to Japan carefully as "Japan is the second-biggest economy and retail market in the world", Tommy Kullberg, Last President and CEO of IKEA Japan K.K, stated (Wijers-Hasegawa, 2006) as Dahlvig estimated that though Japanese market is tough for entering, Japan is much more open and can lead IKEA to catch a pivotal role as a stronger company in Japanese market. (Carpell, 2006)

Moreover, Lars Petersson, replaced Kullberg and responsible for IKEA Japan K.K. since September 2005, also believes that the reentering for the second time is possible to achieve even if the Japanese market is more difficult for companies to establish stores than other markets in North America or Europe. He also claimed that their failure in Japanese market has been overstated since there are also some difficulties in some other markets, for instance, Russia market and Poland market. (Lane, 2007) Furthermore, IKEA is not the only the company that struggled through Japanese market at the first time but some other foreign retailers namely Carrefour and Sephora. Carrefour is the French supermarket while Sephora is a French cosmetic retailer. However, both of them have all come and gone. (Carpell, 2006)

IKEA finally reentered the Japanese market again in 2001 due to the deregulation of Japanese Large Scale Retail Store Law which is beneficial for large retailer to enter (Jetro Japan External Trade Organization, n.d.). Kullberg confirmed that this is the right time for IKEA to step down in Japan for one more time (Sweden-Japan Foundation, n.d.) and he also added that "with the basic foundations in place I find the timing right to step down" (ibid.). Then, in 2002, IKEA Japan K.K. was established with the assistance of JETRO (Jetro Japan External Trade Organization, n.d.).

The new ideal concept of IKEA in Japanese market this time is "making an ideal home" and Kullberg also explained that "In our world, home is the most important place and (having) children are the most important thing. Go home in time to see your children. That is the concept we want to inspire (in) people here". (Wijers-Hasegawa, 2006) The center of its new strategy is "small space living" since children in Japan, a country of more than 127 million, usually live together with parents at home before

marriage and also share pace with grandparents or in-laws. (The Local Sweden's news in English, 2006)

IKEA believes that Japanese and Swedish designs are similar as both of them focus on clean, simple design made of wood and natural materials as well as living comfortably in small spaces (Jetro Japan External Trade Organization, n.d.). "Japanese consumers are more interested in designing the look of their homes by themselves rather than having it done by designer" said Yuki Kusama, IKEA spokeswoman (Carpell, 2006).

In addition, IKEA did marketing survey by visiting more than one hundred homes in order to figure out how Japanese take a bath, how they cook, how they sleep and how they store things (Wijers-Hasegawa, 2006) and what they think of packaging (Jonsson, 2008) so as to adapt their furniture to Japanese taste since they live in small and crowed home. Even though size is considered a matter, IKEA has not changed the size of their products but has selected 7,500 items out of its 10,000 products that suited to Japanese lifestyle instead (Wijers-Hasegawa, 2006) such as offering two-seater sofas, space-saving storage boxes and sofa beds for studio apartments (The Local Sweden's news in English, 2006).

As we know that the prominent style of IKEA is the "flat packs" which disassembled furniture packed into flat boxes for easy transport and self-assembly by customers since they think that assembling on their own can bring enjoyment to customers. However, IKEA provides home delivery and assembly for an extra charge while offer low price products with Japanese standards. For example, tables start at 1,500 yen, an entire living room consisting of television, stand, sofa, bookshelf, rocking chair and coffee table total costs only 85,000 yen which is quite a low price, (Carpell, 2006) However, Tonegawa of Tokyo Interior argued that cut-price furniture can be a suit strategy for only a couple years and he also added that "IKEA, while having wonderful creativity, is light and for the low-end market but not 'real' furniture while Japanese, having few natural resources and a culture of using high-quality products for a long time". (Wijers-Hasegawa, 2006)

Besides, IKEA choose to create supply centers and warehouses in Asia instead of shipping from Europe which one-third of the 10,000 items in IKEA are made in Asia. Due to saving transportation cost and avoiding delayed stock, they ship the rest to distribution centers in Kuala Lumpur and Shanghai before sending them to Japan. (Carpell, 2006)

Nowadays, IKEA is directly owned the three new mega-stores in Japan, Funabachi, Kohoku and Port Island. The first shop was opened in Funabashi (Chiba) on April 24, 2006 with the Swedish traditional ceremony. This grand opening outside Tokyo gained a lot of attention approximately 35,000 customers who formed the long line outside. (News Gate NY, n.d.)

Haruo Okuda, 72, is one of consumer who traveled hours by train from Kawasaki city, west of Tokyo so as to check out the new store. He found that though most products are suit to young people but the price is affordable and he admits that he will return to IKEA, Funabashi again within a week as well as bringing his wife with him in order to buy bed linens since the prices are too temping to ignore. (Carpell, 2006)

Additionally, Fukuko Fukamachi, 35, who was visiting the shop with her husband, thought at first that Scandinavian furniture was expensive but since she walked through out the store, she was so amazed that prices were cheaper than she expected. (News Gate NY, n.d.)

IKEA store in Funabachi, they also created the five-story 40,000-square-meters (43,000 square feet) with 10,000 product lines and launched an outdoor exhibition in Aoyama, IKEA 4.5 museum, by setting up 14 showrooms along tree-lined boulevard. The 4.5 refers to the fact that each showroom is in the size of 4 and half *tatami* mats. (Gridskipper, n.d.) The store's second floor is comprised of 70 mini-showrooms with the same size of typical Japanese room in order to convince their understanding on small-scale living. There are plenty of different kinds of room such as entertainment room and space-saving kitchen room for shoppers to explore and also provide 2,200 car parking spaces. (Carpell, 2006) IKEA also sell 100 yen hot dogs, a Swedish food market for example, Daim chocolate, fish roe paste and lingonberry jam and provide 730-seat restaurant which is one of Tokyo's largest restaurants as well. (Wijers-Hasegawa, 2006)

However, ten large shops mostly located within two train stop from IKEA as Funabashi area is a battlefield for furniture retailers but IKEA still enjoys the competition with rivals since "the more people talk about furniture, the more we sell", said Kullberg. (ibid.) Besides the challenge of closely competitors, 100 yen stores seem to be popular in Japan since it can offer low price as low quality which tends to be another option for Japanese customers (Jonsson, 2008).

The second store of IKEA in Japan is built in Kohoku (Yokohama), south of Tokyo, which opened on September 15, 2006 and later Port Island (Kobe) on April 14, 2008. The next store of IKEA is planning to open in Tsurahama (Osaka), 2008 and aims to open a dozen in total by 2011 if they can find the appropriate locations to locate their stores. (IKEA Japan, n.d.)

5.3 IKEA in Chinese market

5.3.1 China overview

China adopted Reform and Opening-up Policy in 1978 which leaded to the adjustment series of law and regulation to attract foreign investment to the Chinese market and wider open its property and retail markets. The entry of China into WTO leads the country to undergo the transition from planning economy to market economy. That means China has to abide the rules by fully opening up to foreign investment and free market completion. Therefore, business and trade activities have been influenced the economic and trade policies. (Capdevielle, Li & Nogal, 2007)

A host of restriction had been designed to control foreign retailer's operations before China participated in the World Trade Organization (WTO). However, the multinational retailers enjoyed more freedom, which included the choice to establish wholly-owned foreign enterprises rather than executing joint venture. This results in the growing and increasing of foreign retailers both organically, opening new store, and through merger and acquisition, buying existing chains. The changing of

responsibility for approving small and medium size foreign invested retail operations from Beijing to local provincial Ministry of Commerce on 1 March 2006 eased the process for multinational retailers. (ibid.)

China is the fourth largest global economy with a total GDP of US\$ 2,644 billion, which exceeds France and Italy and slightly beyond Britain according to 2006 Global GDP report issued by World Bank (World Bank, 2006)³. The development of China's economic policy during the last twenty years aimed at manufacturing especially export-oriented manufacturing. The emergence initiated from the central planning system in the mid 1990s allowed foreign firms to gradually accessing domestic retail and distribution markets. This was because the government wanted local firms to develop adequately to be able to compete with foreign firms. The speedy appearance of urban middle class and sophisticated consumer demand are due to the rapid economic growth of China and increasing openness to the global market. (Capdevielle, Li & Nogal, 2007)

The birth of a true property market, the promotion of the construction of residence houses and the development of relevant industries which are, for example, furniture retailers and construction raw materials providers were resulted from the alteration of the housing system and fast urbanization in the 1990s. Most customers have been searched for buying new apartments where they have to decorate by themselves. Hence, mid to high end segments of the market is the target of retailers as these buyers tend to spend large money on decoration of the new apartment. The devolve responsibility in choosing materials and decoration to homeowner created 'Buy it Yourself' market. Furniture market in China has shown the great potential as it indicates that furniture for the new house are being bought by 5 million families each year. (China Furniture Association, cited in Capdevielle, Li & Nogal, 2007)

Furniture manufacturing has shifted to developing countries which have relatively low cost. The advantage in scale of market, other fundamentals, such as, low cost with good quality labor, land and intelligence and more importantly the stable political situation are factors that lead China to be one of the most suitable markets. (Capdevielle, Li & Nogal, 2007)

5.3.2 Characteristics of Chinese Furniture Market

The furniture market in China has significant progress and the country is becoming a vital export base and location for locating furniture factories. Chinese furniture market expands very fast owing to the economic reformation in China from 1978. However, Chinese furniture market is not easy to understand as Chinese consumer expectations and purchasing behaviors are varying in different region. (Li, 2007)

In 1999, domestic market, of which the total demand is RMB 73.4 billion, is the main market that Chinese manufacture enterprise competes for. The total furniture demand has been expected to be rising. Western Chinese furniture market and kitchen furniture market achieved people's attention from 1999 to 2000. The development in

 $^{^{3} \}underline{\text{http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf}}$

the western of China has raised the furniture demand in office furniture, hotel furniture and school furniture. (ibid.)

In 2000, the consuming of furniture in family such as wardrobes, sofas and writing desks has decreased. The characteristics of furniture-consuming between urban and countryside are rather different. People realize the decreasing of furniture price in 1999 but it became apparently in 2000. "Furniture Price Campaign" has been spread over the market. The falling of furniture price results from the development of furniture industry, the modification of market economy law and the change of people's consuming notion. The total furniture output has spilled over in the market which shows the excess supply of furniture. This means the market is more competitive, more sophisticated and furniture industry has turned to a bigger scale and wider range extent. (ibid.)

Chinese furniture market still can expand further due to rapidly economic growth. Joining WTO has leaded to furniture's import tax declined to 0% in 2005. This provides a great occasion for foreign manufacturer, retailers and wholesalers. (ibid)

Although Chinese market is potential and attract the foreign company, entering to the market may face some difficulty in the extent of culture and social. From the Statistic Report 2006 of National Bureau of Statistics of China (Capdevielle, Li & Nogal, 2007), the total population of the country is around 1.3 billion of which 11.9% is middle class which will increase to 290 million by 2011.

The growth of Chinese furniture industry is driven by the domestic demand and strong purchasing power due to the improvement of living standard and a large number of population. Thus, Chinese competitive advantage in both marketplace and attracting foreign investment derive from cheap labor raw materials. The moving of multinational companies and the world-class retailers to set their office and subsection in the big cities of China such as Shanghai, Beijing and Guangzhou has shown the great potential and attractive of Chinese market. (Li, 2007)

Chinese furniture market is not homogenous and not easy to understand thanks to the huge diversity in topographies, climates, culture and business practice throughout the country. There are regional variations, especially for products revealing cultural and personal tastes, in Chinese consumer expectations and purchasing behaviors. Many foreign furniture enterprises have been attracted by decreasing import tariff, large consumer market and China's low labor cost. Nevertheless, entry of Chinese market may face a complicated process and bewilder problems. Furniture brands have become gradually vital in the growth of Chinese furniture market. The famous brands are MeiKe Xinjiang, Guangming Heilongjiang, TianTan Beijing, Richman and Land Bond Guangdong and XiLinMen Zhejiang (ibid.).

Chinese culture has a large difference between people's social status which reflects high power distance culture. Mooij (1997) shows that status symbols are important in China. Approaching target customer in an indirect way would be the right way since culture of collectivism, family and belonging are strong in China. (ibid). Having high power distance demonstrates some kind of social habits (ibid). Feminine values are not dominant culture in China (Capdevielle, Li & Nogal, 2007).

Chinese people are not welcoming and not very reluctant to changes. Long term obligation is important for Chinese people and they respect the tradition a lot. This expresses that saving is significant and therefore price of products is important thing that they concern. (Mooij, 1997)

5.3.3 IKEA in China

IKEA opened its first store of China in Beijing in 1998. A new store in Beijing was reconstruction in mid-2004 as the appearance in term of looks and size was not a 'real' IKEA store. (Jonsson, 2008). The re-opened of IKEA store in Beijing in 2006 made IKEA store in Beijing is the second largest in the world which cover 43,000 square meters. (China Economic Net 2004, cited in Capdevielle, Li & Nogal, 2007) IKEA opened the next store in Guangzhou in October 2005 (IKEA homepage 2005, cited in Capdevielle, Li & Nogal 2007) and plan to open more than 5 new stores within 6 years (ibid.). Turnover of IKEA in China in 2004 (dating from 1 September 2003 to 31 August 2004, cited in Capdevielle, Li & Nogal, 2007) grew by 40%. The president of IKEA in China, who is Ian Duffy, claimed that China is becoming important for IKEA in the future because of fast economic development and increasing people's living standard (People's Daily Online 2004, cited in Capdevielle, Li & Nogal, 2007). It is estimated that China will become IKEA's largest market in 10 to 15 years (China Economic Net, 2004, cited in Capdevielle, Li & Nogal, 2007). Until 2007 there are four stores in China which are Beijing, Shanghai, Chengdu and Guangzhou. IKEA prepares to open up to 10 stores in China by 2010. The expansion will focus on eastern China at the beginning (Jonsson, 2008).

IKEA enters China by adopting joint venture with Chinese companies. This is due to the policy of Chinese government to achieve the principal of equality and mutual benefit (Li, 2007). Therefore, IKEA's store in mainland of China belongs to IKEA group and operates as joint venture (ibid.).

Firstly, the customers saw IKEA as an expensive western brand. This happened during the open of IKEA's first store in Shanghai. (Lewis, 2005) Low price was the major challenges of IKEA in China as the high import duty tax at the beginning. Furthermore, it was difficult to reach a large people since the income level is relatively low. Another challenge of IKEA China is the violent competition with others imitates firms and products. IKEA chooses to produce their product locally so that it can offer a large volume of products with low price which enable IKEA to compete with other competitors in the Chinese market. (Jonsson, 2008) At present, IKEA has manufacturing factories and some material suppliers in China (Li, 2007). Therefore, IKEA reduced prices by 10% resulting in increasing sales by 50% in the first quarter of 2004 (People's Daily Online 2004, cited in Capdevielle, Li & Nogal, 2007). In addition, home interior competence which is the key competitive advantage of IKEA in China has been chosen and promoted to strength the position of IKEA in Chinese market. On the contrary, there are few furniture firms in China that choosing this positioning strategy. (Jonsson, 2008)

A survey in China was conducted in 2003 and families earning around US\$5,000 a year became a target of the company (China Daily 2003, cited in Capdevielle, Li & Nogal, 2007). The strategy of IKEA in introducing their products with Swedish

culture everywhere they go has brought about some problems for the company in China (Capdevielle, Li & Nogal, 2007).

Language barrier is one of the challenges that most of western companies faced when they enter Chinese market (Trompenaars & Wooilliams, 2004). IKEA has used the strategy of pronounce-oriented names by translating their name to Chinese (Mooij, 2004, cited in Capdevielle, Li & Nogal, 2007). The IKEA's Chinese name consists of two characters which means comfortable and family and represents their product and corporate identity (Capdevielle, Li & Nogal, 2007). Family is an important word which connects to collectivist culture of China (Mooij 1997). Thus, the character is important as Chinese customers depend more on visual representations (Mooij, 2004, cited in Capdevielle, Li & Nogal, 2007).

6. Analysis

In this section, we discussed and analyzed IKEA in both Chinese and Japanese markets based on literature review and conceptual framework which we have developed to use as a tool to answer our research problems. Empirical data are utilized to analyze our cases. First, we described why IKEA is considered as retailer internationalization. Then, the concept of internationalization process of retailing is applied to answer the question why IKEA internationalize to Japanese market and Chinese market respectively. Finally, the effects that make IKEA success in Chinese market but failure in Japanese market are illustrated and compared.

6.1 IKEA as Retailer internationalization

The concept of retailing internationalization by Dawson (2007) is used to scope the internationalization of IKEA as retailer. Distinguishing the differences between retailing and production is important to understand the retailing internationalization (Dawson, 2007). Six issues are discussed in this topic.

1. Strategic objective

Sales growth is one important strategic for IKEA and is one important reason in expanding store network to Japan and China. In addition, there are push and pull factors that are the reason for internationalization. (Dawson, 2007) As Ian Duffy, the president of IKEA in China claimed that China is becoming IKEA's crucial market as rapid economic growth and increasing people's living standard (People's Daily online, 2004, cited in Capdevielle, Li & Nogal, 2007) Furthermore, the joining WTO of China in 2005 provides a great opportunity for IKEA as the furniture's import tax will be declined to 0% in 2005 (Li, 2007). In Japan, the re-enter of IKEA to Japan is because "Japan is the second-biggest economy and retail market in the world" quoted by Tommy Kullberg who is the previous president and CEO of IKEA Japan (Wijers-Hasegawa, 2006). The deregulation of Japanese Large Retail Store Law is one factor that supports the entry of IKEA to Japan for second time (Jetro Japan External Trade Organization, n.d.). These show that besides sales growth, political and economic factors play a pivotal role in the internationalization of IKEA.

2. Local nature of the market

The failure of entering Japan in the first time led IKEA to be well studied the Japanese lifestyle so that the company can design products and services that suit the Japanese customers (Wijers-Hasegawa, 2006). A survey in China was conducted as well to choose customer target for the company (China Daily, 2003, cited in Capdevielle, Li & Nogal, 2007) as the income level of people is relatively low (Jonsson, 2008). Thus, the company has to segment the market and try to understand local aspects of consumption and consumers' cultures that can be very different from its home country (Dawson, 2007).

3. The outlet is the retailer's product

Retailer sells services not items (Dawson, 2007). IKEA has to adapt their packaging and choosing their products that suite to Japanese lifestyle (Wijers-Hasegawa, 2006). In addition, IKEA has to adjust from their "flat packs" style to home delivery and assembly for an extra charge in Japan (Carpell, 2006). In China, the reconstruction of IKEA store in Beijing in mid 2004 in order to make the appearance more like 'real' IKEA store (Jonsson, 2008). IKEA has showed that differences appearance has different attributes and different mix of services which result in high level asset of asset specificity. Products and services of IKEA are affected by social, economic and political environment in an international expansion (Dawson, 2007).

4. Network structure of retail organizations

IKEA has operated in different countries within a network. The flow among local unit of IKEA in Japan and China has indicated the strong relationships between local units and headquarter. This is reflected by the flexibility of decision and re-entry Japan market. The strong relationship between head quarter and local unit results in the efficiency of IKEA in structuring and planning to enter Japan again in 2001 in order to success in Japanese market. The strength of IKEA in home interior design is exploited to compete with other imitates firms in China. This can be implied that the efficiency of IKEA China is affected by the link of local unit and headquarter.

5. Large number of suppliers and customers

The relationships of the retailer with suppliers are central nature of the retail firm (Dawson, 2007). IKEA has created supply centers in Asia and one-third of the 10,000 items in IKEA are made in Asia (Carpell, 2006). IKEA posses a large portfolio of relationships with suppliers in Asia and create value through those relationship, for example, the company choose to create a relationship with local suppliers in China so as to reduce the price and be able to compete with local firms.

6. Cost structure

Both non-price competition and price competition are tactics used by IKEA. The company offers good and trendy designed products with affordable prices. The strategy to locate most of suppliers in Asia has been used to allow the company gain the lowest cost of production while maintain its competitive advantage in home interior design.

6.2 Internationalization of IKEA in Asian market

6.2.1 IKEA in Japanese market

According to patterns of Internationalization in Uppsala model, there are two patterns of investment. Firms may invest by starting from nearby countries or invest in specific country by learning psychic distance in new markets. (Johanson and Vahlne, 1990) IKEA, the biggest home-furnishing retailer, expand internationally from their nearest countries such as Norway, Denmark and so on (IKEA Group Corporate sites, n.d.).

Later, they decided to invest in distance country in Asia, Japan. Internationalization of IKEA in Japan was shaped by environmental condition as economic and regulation (Alexander and de lira e Silva, cited in Alexander, Rhodes and Myers, 2007). In 1950s, Japan economic growth was attractive for foreigner to invest as the growth of economy expanded rapidly and turns to be the second largest market in the world (Japan Fact Sheet, n.d.) as well as the demand of import furniture is higher (Business America, 1988). Uttermost, the main support comes from Japanese government who helps by reducing the regulatory barriers for import furniture companies (ibid.). IKEA considered that they could gain opportunity and decided to enter Japan in 1970s (Lane, 2007).

However, the instability of Asian economic growth in this period impacted investor such as IKEA because of inflation and the collapse of the bubble economy by the end of 1990s (Japan Fact Sheet, n.d.). This situation brought IKEA into risk as Anders Dahlvig, IKEA group president and chief executive, stated that IKEA was launch in Japan too early (News Gate NY, n.d.). Therefore, IKEA chose to withdraw stores out of Japanese market in 1986 (Lane, 2007).

Brown and Burt (1992) described that asset-based advantage is a retail brand and unique image on their products across borders which IKEA process this advantage since they are both well-known in flat packs products and an affordable price brand. Asset-based advantage and the deregulation of Japanese Large Scale Retail Store Law are the driving forces which treat as Commitment decision (Johanson and Vahlne, 1990) for IKEA to expand in Japan directly as well as Japan open widely and demand of consumer increased (Jetro Japan External Trade Organization, n.d.) These lead to second try to reenter Japanese market in 2002 by establishing IKEA Japan K.K. with the assistance of JETRO (Jetro Japan External Trade Organization, n.d.).

In addition, it is a great challenge for IKEA to overcome differences and maintain their advantages while using their experiences in the past to conquer lack of foreign market knowledge.

6.2.2 IKEA in Chinese market

According to concept of Alexander and Myers (2000), IKEA's vision to offer products with good design and functioned products at low price by using innovative idea is the driver of change that drive the company to internationalize. IKEA possess some ownership advantages which include not only creative concept and technologies but also the experience, leadership, perception and attitudes to expand the company in international market. The company begins to go to international market starting with the country near by the market of origin in Scandinavian and other distant countries later on. The driver of change affects location decisions, entry method and strategy of IKEA. The decision of IKEA to enter China comes from those supporting environments which are political and social and economic conditions allowing IKEA to beneficial exploit advantage in Chinese market. The adjustment of law and regulation to attract foreign investment, the rapid economic growth, the huge demand in domestic market and abundant of raw materials and labors for furniture manufacturing are push and pull factors that lead IKEA to enter and exploit

advantages in Chinese market (Capdevielle, Li & Nogal, 2007). At this point, location advantage highly influences the expansion of IKEA to China (Dunning, 1981, 1988).

IKEA has asset-based advantage which is the main driver of change that leads the company to internationalize (Alexander & Myers, 2000). That means the company has brand reputation and competence in furniture design that can be developed and transformed across national borders (Brown & But, 1992).

In addition, the entry of IKEA to Chinese market gives the company transaction advantage to produce its products locally. As a result, IKEA can offer lower prices and compete with other competitors in Chinese market (Jonsson 2008). The capability of the company to internalize has been implicitly showed in the execution of IKEA to enter China as the company not only gain higher sales growth (Dawson 2007) but also advantage from volume buying resulting from creation of supply centers and warehouse in China (Carpell 2006).

6.3 Influencing factors of IKEA

6.3.1 Influencing factors of IKEA in Japanese market

Since IKEA expanded successfully in European countries and made a decision to enter Japanese's market as the first country in Asia, six key effects on what IKEA needs to face as entering Japanese market at the first round and how they develop to reenter in the second round are discussed.

1. Psychic distance and learning

The first determinant of IKEA to fail in Japanese market is psychic distance or cultural distance that impacts lifestyle, size of products in household and behavior of consumers. Although IKEA, an enormous furniture retailer, intended to overcome this Asian market in the first round, they encountered the cultural difficulties such as the differences in lifestyle, the way Japanese live and manage their houses. First, IKEA are well-known in offering self-assemble kit or "flat packs" while Japanese do not familiar with do it yourself kit that customers need to assemble from compact box themselves at home. Second, Japan is an island with limited area. Then, people in this country have to live in small space (Wijers-Hasegawa, 2006) in order to make use of limited area while IKEA offers furniture in the same size with other countries. As a result, IKEA faced with failure and needed to remove the store out of Japan.

Though IKEA encountered failure because of psychic distance in the first round, it seems to be successful for the second round since IKEA learnt from their mistakes by gathering market knowledge (Johanson and Vahlne, 1990), especially marketing-specific knowledge, such as doing survey in order to understand customers and cultural pattern of Japanese. IKEA finally provides home delivery with extra charge and still maintains the prominent style "flat packs" for customers (Carpell, 2006).

In this second round, IKEA considers Japanese lifestyle and the size of furniture in Japanese household by choosing appropriate size of 7,500 items out of its 10,000

products to offer instead (Wijers-Hasegawa, 2006) such as providing two-seater sofas or space-saving storage boxes and create the concept as "small space living" (The Local Sweden's news in English, 2006). Though, IKEA sees the cultural difference between Swedish and Japanese, both of these two countries still agree in the same clean and simple common design (Jetro Japan External Trade Organization, n.d.). Besides, psychic distance also influences the behavior of Japanese customers since Japanese believes in quality oriented products (Wijers-Hasegawa, 2006) while IKEA offers low price product. However, behavior of Japanese in furniture market tends to change and willing to accept affordable price product of IKEA increasingly.

2. Strategic decision making process

Since IKEA acquired too limited information of Japanese market, this impacted the strategic process of the organization. Strategic decision making process (Evans *et al*, 2000) is considered as a factor that leads to failure of IKEA in Japanese market because of inappropriate planning and poor understanding in foreign market. For the first time that IKEA entered Japan, they lacked of research but IKEA perceived the opportunity by using the experiential learning (Forsgren, 2002) that they obtain from doing business in other countries around the world, especially in European countries, to reduce perceived uncertainty and invest in Japan since they realized that risk of not investment is much more. By that time, IKEA wanted to gain advantage as a leader in Japanese furniture market but carelessly rushing into new market cause them to withdraw the store at last (Petersson, cited in Carpell, 2006).

Although, strategic decision making process is a factor of failure in the first round, IKEA also improved their knowledge by entering in the second round. In this second time, IKEA creates its own Absorptive capacity (Erikkson and Chetty, 2003). IKEA builds the dyadic relationship (Erikkson and Chetty, 2003) between IKEA and Japanese customers by visiting customers in order to decrease lack of knowledge and it took five years for IKEA to collect all data to reenter Japan over again (Wijers-Hasegawa, 2006).

3. Degree of adaptation of retail offer

Degree of adaptation of retail offer (Evans *et al* 2000) is one of determinants that effects investment in overseas market of IKEA. Although, IKEA offered commodities quality, fashion, level of services, price and image (McGoldrick, 1998; McGoldrick and Blair, 1995; McGoldrick and Ho, 1992) as they offered in other countries, they perceived that degree of adaptation is significant since they were not success in introducing self-assemble in Japanese market from inception. The low degree of adaptation to the new environment brought IKEA into disappointment.

Therefore in the second round, IKEA learnt to adapt the level of service by providing home delivery and service to assemble at home if customer wants but they still maintain their prominent style, flat packs as they still keep educating Japanese consumers that flat packs can bring joy, fun and it is quite easy to assemble that furniture (Carpell, 2006). In addition, IKEA also adapt to the new environment by selecting the appropriate furniture for Japanese consumers and proposing the new ways of decorating houses in order to suit Japanese taste even they needed to encounter strong competitors as Muji and Nitori (News Gate NY, n.d.) in 1970s and

competed with other large shops in the same area as well as 100 yen stores later on (Jonsson, 2008). However, not only do IKEA adapt the level of service and offer the appropriate products but they also consider the necessary of understanding by adapting products to local things such as packaging, displays or advertising in order to learn and adapt to this new market.

4. Entry strategy

In 1974, IKEA expanded into Japanese market by using franchising (Wijers-Hasegawa, 2006) as a mode of entry in order to reduce financial risk in overseas markets (Evan *et al*, 2000). Nevertheless, IKEA failed to adjust with this psychic distance country and reentered over again later in second round by using directly own as a strategy to enter (News Gate NY, n.d.) with the assistance of JETRO by launching IKEA Japan K.K. (Jetro Japan External Trade Organization, n.d.).

5. Characteristics of organization

Size of company or store is a significant factor in Characteristic of organization. Although, IKEA is a mass retailer, they opened only a small size of store in Japan in mid 1970s since Japanese are familiar with small shops (Carpell, 2006). However, they gained too little attention from Japanese customers. Then, after IKEA accumulated market knowledge (Johanson and Vahlne, 1977) of the Japanese behavior from the first round, they recognized that size of store is matter in selling furniture to Japanese. Therefore, success or failure also depends on the size of store.

To attract the attention in the second round, IKEA improved the stores by opening the first new-mega store, 40,000-square-meters (43,000 square feet), in Funabashi for example (Gridskipper, n.d.). They invited customer in grand opening and displayed a museum with showrooms in Japanese mat size to appeal Japanese taste. IKEA provided a variety of products in wide range since they can acquire resources from their suppliers. They offered different kinds of room such as kitchen room, bedroom, and living room in different styles to suit shoppers and convince that they understand the style of living in small scale. This outdoor exhibition attracts a lot of Japanese attention as well. Moreover, a largest home furnishing retailer, IKEA, also support this mega stores as they offer restaurants, children's playroom, Swedish food markets and large area of parking lot in less-expensive location (Wijers-Hasegawa, 2006). In addition, Timing entry also influences on success and failure in entering market which IKEA convince that though they encountered obstacles in Japanese market, they believe that the second round is the right time as Kullberg said "with the basic foundations in place I find the timing right to step down" (Sweden-Japan Foundation, n.d.).

6. Management characteristics

Though IKEA possesses a unique design as flat packs and offers products at low prices, IKEA cannot gain Japanese's attention since the customers are not familiar with self-assemble kits and IKEA also encountered the strong competitors such as Muji (News Gate NY n.d.). Besides, insufficient creates the barrier for IKEA to supply as well (ibid.). These lead to failure in Management characteristics of IKEA in Japanese market.

Therefore, IKEA have learned through their international experience that managing suppliers also play the vital role in business as well since IKEA was lack of connection in providing products and faced with insufficient suppliers (News Gate NY, n.d.) which was difficult for them to lower the price since they shipped products from European countries at first. To correct their mistake, IKEA turned to provide supply centers and warehouse in Asia (Carpell, 2006) as a Market commitment (Johanson and Vahlne, 1990) by establishing a commitment in raw material such as Kuala Lumpur and Shanghai in order to send furniture to Japan in low cost and avoid delayed stock in stead of shipping from Europe and avoid from suffering in lack of suppliers (Carpell, 2006). This relationship between IKEA and suppliers creates the Dyadic absorptive capacity (Erikkson and Chetty, 2003) which is the characteristic of IKEA that they learn by doing in order to develop their knowledge in their past directly.

6.3.2 Influencing factors of IKEA in Chinese market

China is considered to have enormous difference from Sweden in many aspects, for example, social, economic, culture, political systems and business practices (Lee, 1998). Thus, IKEA has to adjust itself in order to success in Chinese market. According to Evans *et al* (2000), factors that can contribute to the success of IKEA in Chinese market are discussed in this section.

1. Psychic distance and learning

China is considered to have a high psychic distance from Sweden which is the country of origin of IKEA. Those barriers are language, cultural difference and other business difficulties that present barriers to learning about Chinese market (O'Grady & Lane, 1996). IKEA has to adjust itself to China's culture which has high power distance culture (Mooij, 1997). In order to overcome language and culture barrier, IKEA has to translate their name to Chinese name which connect to the collectivist culture of China (Mooij, 1997). The translation to Chinese name has two beneficial effects for IKEA in two ways. First, the company can reduce cultural distance between Sweden and China as Chinese customers depend more on visual representations (Mooij, 2004, cited in Capdevielle, Li & Nogal, 2007). Second, IKEA gains more legitimacy and has a higher influence in presenting their products and corporate identity (Capdevielle, Li & Nogal, 2007). Consequently, it took IKEA fifty five years in entering Chinese market due to high psychic distance that results in high perceived market uncertainty and not easy to understand. This is in accordance with the concept of international expansion of a firm by Johanson and Vahlne (1990) that a firm tends to start internationalization in most easy understand and similar market. Thus, IKEA's internationalization started from Europe which is considered to have low psychic distance to Asia which is more barriers to cross.

2. Strategy decision making process

Though IKEA faces some difficulties and obstacles in Chinese market, the company changed their structure in both store appearance and pricing strategy in order to survive and be ahead of other rivals in the market. The strategy decision making process of IKEA showed the appropriate planning and research in consumer market and competition (White, 1995) which lead to success of IKEA as the turnover of the company grew by 40% in 2004 (Capdevielle, Li & Nogal, 2007).

3. Degree of adaptation of retail offer

Standardization and adaptation have been incorporated in IKEA China. The layout, atmosphere and location were reconstructed in mid-2004 to reveal the identity of IKEA (Jonsson, 2008) while the name IKEA was translated to Chinese name to approach target customer whose cultures demonstrate sense of belonging and collectivism (Mooij, 1997).

4. Entry strategy

IKEA chose joint venture as an entry mode in China due to the policy of Chinese government to encourage foreign companies to join with Chinese companies (Li, 2007). This strategy minimizes financial risk and enables IKEA to handle with distant market (Evans *et al*, 2000). Moreover, joint venture provides IKEA a great opportunity to build partner and relationship with suppliers in China and make China became one of important supply center of IKEA in Asia (Carpell, 2006).

5. Characteristics of organization

Considering size of company, IKEA, the company has a potential in internationalization (Evans *et al*, 2000). IKEA has to accept high risk in investing in high psychic distant market and totally different culture compare to the home market. However, those problems seem to be well handled. Risk is reduced by doing joint venture so that IKEA can gain knowledge about local market. This is crucially important for IKEA China as learning by doing may not enough for IKEA to operating business in the dominant high power distant culture characteristic of Chinese market (Mooij, 1997). IKEA has potential capability to acquire resources from local market (Evans *et al*, 2000). IKEA has created a network of relationships which help the company to adjust price strategy to compete in local market by collecting raw materials and producing locally instead of shipping their products from Europe to China (Jonsson, 2008). These capabilities lead to successful of IKEA China (Evans *et al*, 2000).

6. Management characteristics

The management of IKEA is under the concept of good design and function at low prices. In addition, the experience of the company in international expansion in Europe helps to reduce the gap of psychic distance and leads to superior of IKEA. The concept of good design plus affordable prices leads to the strategy of the company to set supply centers and distribution centers in Asia especially in China (Carpell, 2006). IKEA solves the problem of lacking of knowledge about Chinese market by doing joint venture and learning by doing. The company acquired knowledge through partnership and also conducted survey by itself to understand consumer culture and products that suits the market (China Daily, 2003, cited in Capdevielle, Li & Nogal, 2007). Joint venture is therefore served as short cut to acquired tacit knowledge in Chinese market (Barkema&Vermeulen, 1998; Huber, 1991).

The ability of IKEA to develop and use its existing knowledge and experience to develop their strategy so as to reach large people in China shows the absorptive capacity of the company (Erikkson & Chetty 2003). The strength in furniture design and produce their products locally in China lead to successful of the company resulting from increasing experience from operating business in China over time (Erikkson & Chetty 2003).

In addition, the network and dyadic relationship play an important role for IKEA China. The government support in form of law and regulation (Capdevielle, Li & Nogal, 2007) and the creation of supplier relationship (Li, 2007) facilitate the transfer of knowledge in an ongoing business. This is in accordance with Zahra and Hayton (2007) that dyadic relationship and customer network relationship assist the company to overcome foreign market knowledge obstacle.

6.4 Comparison influencing factors of IKEA in the Japanese market and Chinese market

Since there are six issues in explaining the success and failure of IKEA in Asian market, there are similarities and differences in these two markets, Japanese and Chinese markets. Firstly, psychic distance is the main obstacle for IKEA in entering Japanese market as a result of differences in many aspects such as lifestyle, size of products in household and behavior of customer which psychic distance is a barrier in Chinese market as well, especially differences in culture and language. Secondly, lack of suitable plans and poor understanding of IKEA in Japanese market leads to poor strategic decision making process as in Chinese market, IKEA create appropriate planning and research in Chinese consumer market and lead to success as a consequence. Thirdly, degree of adaptation of IKEA in Japanese market is quite low at the first round while there is some degree of adaptation in Chinese market such as translating the name in Chinese. Fourthly, there is similarity in investment with this two distance countries, that is, they invest without directly owned because of lack of knowledge in distance countries. However, they employ the differences in entry mode since franchising is a mode of entry of IKEA in Japanese market while joint venture is the entry mode of IKEA in Chinese market. Fifthly, characteristics of organization of these two markets are different since IKEA entered Japanese market in small size of store from the inception and gained too little attention but very large size of store in Chinese market. Lastly, management characteristic in Japanese market, especially lack of supply network, created the difficulty for IKEA to provide products while IKEA owned their supply centers and distribution centers in China.

However, though IKEA did not success in entering Japanese market in the first round, they have learned through their own experience to correct the mistake in the past. Gaining through learning and experiencing in Japanese market could be the lesson for them to gain knowledge and use as a guide to invest carefully in entering other distant markets.

7. Conclusion and recommendation

In the last part, the conclusion of the thesis is provided to summarize the findings based on the abovementioned research problems as well as recommendation for further study is provided.

7.1 Conclusion

IKEA are considered as retailer internationalization since IKEA plan in organizing strategic objective, understanding the local nature of markets and using outlet as a retailer's product. Besides, IKEA also has strong relationship of network structure, large number of suppliers and customers and cost structure in order to internationalize.

To internationalize, there are different driving forces that push IKEA to enter in Japanese and Chinese markets. IKEA expanded into Japan because of economic constraint, deregulation and asset-based advantage while supporting environments which are political and social and economic conditions as well as transaction advantage are the influences that support IKEA to internationalize in Chinese market.

The factors that influence the success and failure of IKEA in Asia, Chinese market and Japanese market, are summed up, namely, psychic distance and learning, strategic decision making process, degree of adaptation of retail offer, entry strategy, characteristics of organization and management characteristics. In brief, firstly, psychic distance creates barriers for IKEA to enter both Japanese market and Chinese market because of differences in many aspects between European and Asia which lead to learning in different perspectives. Secondly, strategic decision in planning leads to achievement in Chinese market while planning and researching are missing in Japanese market. Thirdly, there are too little in degree of adaptation in Japanese market but the adaptations in Chinese market exist. Fourthly, though IKEA invested in both Japanese market and Chinese market without directly owned in order to gain knowledge, there are differences in modes of entry as IKEA applied franchising in Japanese market but joint venture in Chinese market. Fifthly, size of store is matter in characteristics of organization since the store of IKEA in Japan is small but rather big in China. Next, IKEA in Japanese market lacks of supply network while IKEA owns supply centers in China which lead to different characteristics of management.

Furthermore, though IKEA do not achieve in expanding in Japanese market but Chinese market later on, internationalization of IKEA in Japanese market for the second round is a big challenge for IKEA to use their learning and experiences to conquer Japanese market over again as well as other distance countries.

7.2 Recommendation

Due to limitation of time and source of information in studying internationalization of IKEA, we decided to scope only on psychic distance and learning as a major concern. Otherwise, there are other significant aspects that relate to internationalization. For further study, we would like to recommend in studying entrepreneurship and network among entrepreneur, suppliers and customers as well as the relationship among employers, local employee since these linkages will support in illustrating international expansion of IKEA clearer.

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