

# From an Institutional Perspective: Exploring the Risk and Uncertainties of Retailing Industry in The International Market

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**Abstract:** The globalization of the retail industry has opened new markets and opportunities for expansion. However, internationalization also introduces significant risks and uncertainties, particularly due to differences in formal and informal institutions across countries. This paper employs institutional theory to analyze the risks faced by retail firms in international markets, focusing on formal institutions (political, economic, and legal systems) and informal institutions (culture, religion, language, and ethics). Through case studies of Walmart, Tesco, and Carrefour, the paper highlights the challenges of navigating institutional complexities and proposes strategies for mitigating risks. The study incorporates data analysis and visualizations to provide empirical support for its arguments. The findings contribute to both theoretical and practical understandings of retail internationalization and provide insights for firms seeking to expand globally.

**Keywords:** Retail Internalization, Institutional Theory, Global Expansion Strategies.

## 1. Introduction

With the rapid development of the global economy, retailing industries are rapidly expanding and opening new markets overseas. However, foreign company doing business abroad not only brings new opportunities but also cause risks and uncertainties for the international company. Foreign companies in international business will follow different “rules of the game” institutions in different countries which can be easily affected by the company’s success and failure (North, 1990). Therefore, it is significant for foreign company focusing on the long-term goal to mitigate risks and uncertainties.

This essay will identify risks and uncertainties which are likely to be faced by the retailing industry in the international market from an institutional perspective. The essay will hold up several examples of physical superstores doing business abroad and analyse formal institutions in policy, economic and legal, and informal institutions in culture, religion, languages and ethics. Taking the institution factors into consideration to analyze the risks and uncertainties by foreign firms doing business abroad in the retailing industry.

The globalization of the retail industry has opened new markets and opportunities for expansion. However, internationalization also introduces significant risks and uncertainties, particularly due to differences in formal and informal institutions across countries. This paper employs institutional theory to analyse the risks faced by retail firms in international markets, focusing on formal institutions (political, economic, and legal systems) and informal institutions (culture, religion, language, and ethics). Through case studies of Walmart, Tesco, and Carrefour, the paper highlights the challenges of navigating institutional complexities and proposes strategies for mitigating risks. The study incorporates data analysis and visualisations to provide empirical support for its arguments. The findings contribute to both theoretical and practical understandings of retail internationalisation and provide insights for firms seeking to expand globally.

## 2. Theoretical Framework

The institutional theory assumes that firms operate within a framework of formal and informal institutions that shape their behaviour and performance (North, 1990). Formal institutions include political, economic, and legal systems, while informal institutions encompass culture, religion, language, and ethics. For retail firms, understanding these institutions is crucial for navigating the complexities of international markets.

Degree of formality	Examples	Supportive pillars
Formal institutions	<ul style="list-style-type: none"> <li>· Economics</li> <li>· Political</li> <li>· Legal(laws)</li> </ul>	<ul style="list-style-type: none"> <li>· Regulatory</li> </ul>
Informal institutions	<ul style="list-style-type: none"> <li>· Norms</li> <li>· Cultures</li> <li>· Ethics</li> </ul>	<ul style="list-style-type: none"> <li>· Normative</li> <li>· Cognitive</li> </ul>

Figure 1. Institutional dimension

## 3. Methodology

This study employs a mixed-methods approach, combining qualitative case studies with quantitative data analysis. The case studies focus on Walmart, Tesco, and Carrefour, three leading retailers with extensive international operations. Data for the analysis were collected from secondary sources, including company reports, academic journals, and industry publications. Quantitative data on political risk, economic performance, and cultural dimensions were obtained from the World Bank, International Monetary Fund (IMF), and Hofstede Insights. Use a risk matrix to assess risk and propose strategies to mitigate it.

### 3.1. Analyse Risks from A Formal Institution's Perspective

The institution aims to reduce uncertainty and provide a stable structure for economic exchanges (Vecchi et al., 2019). Formal institutions may be imposed by the home country and host country, including political, economic and legal systems (Norm, 1990).

Political risk often affects companies' operations in international markets, with foreign direct investment (FDI) being a clear indicator. According to World Bank data from 2023, countries with higher political stability, such as Canada (76), Germany (66), and the United States (47), have higher FDI net inflows as a percentage of GDP (2.2%, 0.4%, and 1.3%, respectively). Since data for Syria and Venezuela were not disclosed, they are marked as 0 in this analysis. However, we can infer that unpredictable government policies, social instability, and foreign exchange controls have prevented investment and made long-term operations difficult for businesses.

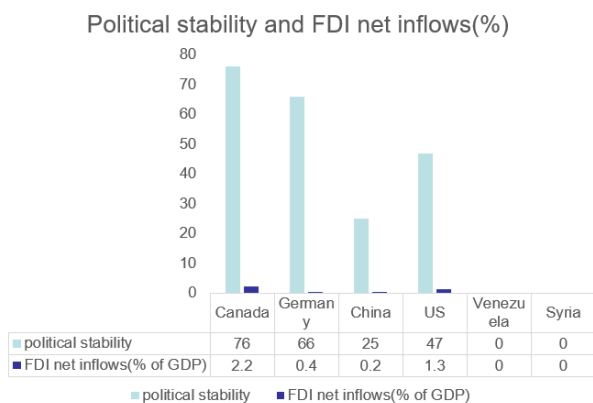


Figure 2. Political stability and FDI net inflows (%)

When a company starts a business in other countries, political changes may negatively influence it. As a result, political risks will arise when an actor changes government policy (Henisz, 2002). Generally, political risks are recognized by government intervention in business operations (Kobrin, 1979). Government policy adjustments such as tariffs and trade restrictions will affect the costs and margins of the multinational retail industry. Walmart, the world's largest retailer, has been running a business all over the world, including supermarkets, convenience stores and department stores. It may face a wide range of political risks such as trade policy changes and tax policy adjustments, which affect Walmart's overall operating sales performance. Furthermore, operating in war and conflict zones, Walmart may face threats including employee safety and store security. The superstore may be attacked or stolen by terrorists. The war and conflict lead to supply chain disruptions, which will disrupt the transportation of raw materials and products, increasing operating risks. Due to political uncertainty, Walmart needs to assess risks carefully and take relevant risk management actions to reduce risks and protect overall profit.

International Business is closely linked to the economic environment when conducting business activities. However, when currency fluctuations or market changes happen, it brings economic risks to the company. The different economic risks such as technology, contract risk and market risk cause potential investors to be reluctant to invest (Arnold, 2015). An illustrative instance from Tesco, one international food retailer. When the investment community perceives an

over-leveraged acquisition, lack of discipline in capital expenditure allocation or neglect of operations in the home market, Tesco will suffer loss from an uncertain market (Wood et al., 2017). Similarly, retail companies are highly likely to be affected by exchange rate fluctuations. The data shows that the British pound depreciated against the CNY between 2010 and 2013, which further reduced Tesco's profitability. (appendix A)

As a multinational enterprise, compared to native firms, the company has a disadvantage in foreign markets, which we call the "liability of foreigners" (Zaheer et al., 1997). Due to unfamiliarity with the Chinese market, Tesco's performance in the Chinese market is going hard and meeting the fierce competition from native giant retailers, such as Alibaba and Jingdong. Tesco's business in China did not achieve its expectations, eventually, Tesco chose to opt out of the Chinese market. Thus, hedging risk is an important part of business. By spreading out the investments, the company can reduce risk. Also, it is a good way for the company to purchase business insurance to prevent unexpected incidents.

The legal system is about countries enacting and enforcing laws and legal risks produced by the legal system, which includes foreign investment law, contract law, et cetera. Legal risk is the manifestation of a legal norm's potential detriment (Mahler, 2007). In the financial market, Legal risk is about conduct-related scandals, such as the selling of financial products improperly and LIBOR manipulation, when incurring a financial crisis, leading to a legal and regulatory change (McCormick, 2018). Carrefour entered the Chinese market and circumvented state regulations, establishing a company called Jiachuang with a Chinese venture capital firm, which caused an investigation by the government. This halted Carrefour's expansion plans, and Carrefour immediately apologized and reached an agreement with the government to register the company.

### 3.2. Analyse Risks from An Informal Institution's Perspective

Informal institutions are not formalized, including norms such as culture, ethics, religion and languages, which play an important role in reducing uncertainty when formal institutions are unclear or fail. Informal institutions are a guideline for decision-making progress and human behaviour (Crossland et al., 2011).

Hofstede (2001) identifies five dimensions of culture to provide insights into the norms and values of countries, including individualism, uncertainty avoidance, masculinity, long-term orientation and indulgence. Multinationals who are eager to conquer the global market may confront cross-cultural blunders when multinationals are unfamiliar with the culture of host countries. However, it is common to have different cultural clusters when the business operates overseas. Multinationals must adapt to the local culture and adjust their operations (Chuang, 2011). When Carrefour entered the Chinese market, they recognized the importance of marketing in China. According to Chinese consumption preferences, they studied customer preferences for fish species. When Carrefour expanded to the west of China, they provided frozen fish instead of fresh fish. The reason is that there are no fish close to the coast and customers are not accustomed to fresh fish. Another example is Costco in Taiwan, Costco adjusts its American products, making them more like local flavor.

Another informal institution is religion, which is a

manifestation of culture. For the international retailing industry, religious issues are very sensitive, any religious blunders can damage brand reputation and consumer trust. One case is Tesco's product "Five-Spice Roast chicken", which printed Islam's holiest site paper strays on its packaging. This sparked protests from some Muslim consumers because they believed this violation of respect and protection for Mecca. Overall, the retailing industry should consider consumers' religious beliefs and practices, to avoid offending religious groups. If it is not treated properly, the company's reputation will be damaged and may be resisted by consumers.

Language is also crucial to culture, when a company enters a foreign country, understanding the language allows the company to quickly integrate into the local market.

However, due to different cultures, the meaning of the word will vary from country to country. One classic example of language blunders is a chain of supermarkets in the US, named "Fresh and Easy", a British retail brand of Tesco in the US market. However, in American culture, "easy" means cheap and downmarket which misled customers, believing that the quality of supermarket products is low. As a result, the expectations were not achieved in the US market. It is a good way for the company to provide language learning to employees and business partners, hiring multilingual people in key positions.

The last dimension of informal institutions is ethics, which refers to principles and norms that guide individuals and business behaviours. Business ethics in a certain way is thought to deal with scandals such as corruption and fraud, regulating business behaviour (Wasieleski, 2019). An instance of this is Walmart in Chile, where 17000 employees went on strike and were required to improve employee welfare. The action aims to urge Walmart to fulfil its contractual obligations, providing fair and reasonable wages. The strike forced 130 supermarkets to close in Chile under different brands, and more than 100 stores were reduced in operating hours. For Costco, a wholesale corporation is voted to provide members with high-quality products at the lowest price, attracting more consumers for a pleasurable shopping experience. Also, management has been investing heavily in its employees, which increases employee wages and guarantees employee welfare (Kumar, 2022).

#### 4. Risk Matrix

Through the above analysis, the main risks faced by a retail company in the international market can be divided into two categories: Formal Institutions and Informal Institutions. Using the Risk Matrix, we can assess these risks in terms of impact and probability of occurrence.

Risk level:

**Table 1.** Risk Level

Probability \ Impact	1 (Minor)	2 (Low)	3 (Medium)	4 (High)	5 (Catastrophic)
5 (Very High)	L (Low)	M (Medium)	H (High)	C (Critical)	C (Critical)
4 (High)	L (Low)	M (Medium)	H (High)	C (Critical)	C (Critical)
3 (Medium)	L (Low)	M (Medium)	M (Medium)	H (High)	H (High)
2 (Low)	L (Low)	L (Low)	M (Medium)	M (Medium)	H (High)
1 (Very Low)	L (Low)	L (Low)	L (Low)	M (Medium)	M (Medium)

Low risk (green, L): Negligible effects and little intervention required.

Medium risk (yellow, M): Need attention, but acceptable.

High risk (orange, H): Strategies need to be developed to

ensure control.

Very High risk (red, C): A significant threat that needs to be addressed as a priority or it could affect business survival.

Risk Classification:

**Table 2.** Risk Classification

Risk Category	Specific Risk	Probability	Impact	Risk Level
Formal Institutions	Political instability & government intervention	High (4)	High (4)	Critical
	Tariff & trade policy changes	High (4)	High (4)	Critical
	Legal & compliance risks	Medium (3)	High (4)	High
	Economic recession & currency fluctuations	High (4)	High (4)	Critical
	Competition policy & antitrust regulations	Medium (3)	High (4)	High
	Labor laws & minimum wage requirements	High (4)	Medium (3)	High
Informal Institutions	Cultural adaptation issues	High (4)	Medium (3)	High
	Religious sensitivity	Medium (3)	High (4)	High
	Language misunderstandings	High (4)	Low (2)	Medium
	Consumer ethics & moral standards	Medium (3)	High (4)	High
	Cultural advantage of local competitors	High (4)	High (4)	Critical

According to the analysis of risk matrix, the extremely high risks in the process of retail internationalization (C) mainly focus on political instability, trade policy changes, economic fluctuations and local competitors' advantages; High risk (H) involves legal, cultural and labour issues.

#### 4.1. How to Mitigate Risks in The International Market

Combined with the above case study, conclude that:

##### 4.1.1. Politics and Economy

When a retail company enters the overseas market, it needs to evaluate the current political risk. It's like Walmart's security problems in conflict zones, which can lead to

damaged stores and supply chain shortages. This requires companies to make emergency response plans, and try to choose stable countries to avoid conflicts when choosing sites. In the face of different tariffs in different countries, the company can cooperate with local suppliers to reduce the dependence on imports. For interest rate risk, it is necessary to adopt the strategy of financial hedging.

#### 4.1.2. Law and Regulation

For companies expanding into international markets, it is imperative to thoroughly understand and comply with the legal and regulatory frameworks of the target country. Non-compliance can result in business suspension and reputational damage. In the retail company, transparency in pricing and adherence to local pricing regulations are essential to maintaining consumer trust and regulatory compliance. Furthermore, companies must uphold employee rights and interests by effectively managing labor disputes and ensuring fair resolutions. Enhancing employee welfare and strengthening labor-management relations are also critical to fostering a stable and productive workforce.

#### 4.1.3. Culture and Society

When entering an overseas market, companies must thoroughly understand the local culture. Misinterpreting cultural norms can lead to poor sales performance and potential market exit. Conducting comprehensive market research is essential to enhance product positioning and brand perception. In religious countries, product design should be particularly sensitive to local customs and traditions. More importantly, companies should localize their brand by developing products that reflect local characteristics and, ideally, integrate elements of the local culture.

## 4.2. Future and Potential Research

When expanding into international markets, retail enterprises must not only address institutional risks but also conduct in-depth competitor analysis, optimize value positioning, and select an appropriate market entry strategy. Additionally, the 4P marketing strategy can help businesses adapt to local markets, while the application of AI technology further enhances consumer experience and strengthens competitiveness. In the future, continuous innovation will be essential for companies to navigate the challenges of a globalized market. Future research could also explore quantitative modeling of institutional risk impacts on retail profitability.

## 5. Conclusion

From an institutional perspective, formal and informal institutions bring risks and uncertainties to the physical superstores when doing business abroad. When physical superstores do business abroad, they should learn more about the host countries' policies and comply with local systems and regulations. Developing product plans based on different market demands and customer preferences, learning more about the local religion and culture to reduce risk and uncertainty.

Overall, the retailing industry overseas will confront many risks and uncertainties, including political, economic, cultural and regulatory, etc. It requires overseas superstores to pay more attention to the local laws and regulations, political changes, economic situation and cultural characteristics. The retailing industry should enhance risk management and take flexible strategies to adapt to a changing environment,

promoting the company's long-term growth. Effective risk mitigation strategies, including regulatory compliance, localization, and strategic alliances, enhance market sustainability.

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