INTERNATIONALIZATION IN CULTURALLY DISSIMILAR MARKETS: ANALYSIS OF TRADITIONAL AND MODERN RETAILING FORMATS IN EGYPT

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ABSTRACT

Contrasting views on the influence of host country culture as a key determinant in foreign market selection and entry mode of U.S. retailers remains an area for discussion. This study identifies common trends in foreign retail environments to determine if culture is a significant factor in internationalization. Data were generated from observations of retail environments in Cairo, Egypt for three months. A Semantic Differential Scale and field notes were utilized to collect descriptions of traditional formats with informal retailing systems, and modern formats with formal retailing systems in Egypt compared to U.S. markets. Results show cultural differences inherent to traditional formats in Egypt, but no significant differences were found in modern formats compared to the U.S. Findings indicate host country culture is an insignificant factor in foreign market selection and entry mode in modern retailing formats, and that cultural differences can be managed with a strategic entry approach.

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LIST OF ABBREVIATIONS

CD…………………Cultural distance

FDI………………...Foreign direct investment

MENA......................Middle East and North Africa

SDS………………..Semantic Differential Scale

CHAPTER 1. INTRODUCTION

The influence of host country culture on market selection and entry mode is one of the most disputed issues in internationalization and foreign direct investment (FDI) literature. Internationalization is a key process in which retailers shift operations from domestic to foreign markets to minimize dependence on home markets, target new distribution channels, and strengthen positions as global competitors (Aliouche & Schlentrich, 2011; Al Qur'an, 2010; Eroglu, 1992; Park & Sternquist, 2006; Yeganeh, 2011). Middle East and North Africa (MENA) present U.S. retailers with long-term growth opportunities that no longer exist in saturated and highly competitive domestic markets. The MENA region includes Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, West Bank and Gaza, and Yemen (Euromonitor International, 2013b; The World Bank, 2013).

Select MENA regions offer U.S. retailers a competitive advantage with low market saturation, limited competition, a growing population, a developing middle class, and added potential for economies of scale (Aliouche & Schlentrich, 2011; Ramzy, Ogden, & Ogden, 2011; Sakarya, Eckman, & Hyllegard, 2006). While growth potential is high, internationalization in less developed markets culturally different to domestic markets can pose challenges or risks for FDI. Transaction cost analysis theory of internationalization suggested risks increase when two markets exhibit differences in cultural contexts, such as language, gender, religion and working styles, merge (Anderson & Gatignon, 1986; Eroglu, 1992; Johanson & Vahlne, 2009; Kogut & Singh, 1988; Yeganeh, 2011).

FDI literature has shown interest in host country culture as a soft determinant in global trade. However, there is much ambiguity about its influence on foreign market selection and entry mode of U.S. retailers (Bhardwaj, Dietz, & Beamish, 2007; Kogut & Singh, 1988; Park & Sternquist, 2006; Yeganeh, 2011; Yeniyurt & Townsend, 2003). Past studies found cultural distance (CD), or the difference in cultural contexts between home and host markets, a significant factor in internationalization. Research argued cultural differences in business practices influenced market selection and therefore, increased market uncertainty. This suggested higher CD between home and host markets increased perceived risks for internationalization, which lowered perceived opportunities (Anderson & Gatignon, 1986; Bhardwaj et al., 2007; Eroglu, 1992; Kogut & Singh, 1988; Shenkar, 2001).

Conversely, more recent studies that measured the effect of CD found it to be an insignificant factor. Studies found the effect of CD was subversive to internationalization, specifically when retailers utilized a franchising entry approach. Research argued retailers generally ignored cultural differences in foreign markets, as operations proved no more challenging than entry into familiar markets and therefore, increased market certainty. This suggested higher CD between home and host markets increased perceived opportunities for internationalization, which lowered perceived risks (Aliouche & Schlentrich, 2011; Park & Sternquist, 2006; Sakarya et al., 2006; Yeganeh, 2011).

Few studies have examined CD on global trade in high-growth less developed countries like MENA, despite an increase in internationalization (Aliouche & Schlentrich, 2011; Park & Sternquist, 2006; Yeganeh, 2011). African countries are often generalized as less developed markets least likely to attract U.S. retailers due to limited English proficiency, unstable governments and unhealthy economic or social systems (Aliouche & Schlentrich, 2011; Mottaleb & Kalirajan, 2010; Ramzy et al., 2011; Romdhani, 2012). However, MENA was the fastest growing market for specialty retailers amid political and social unrest in 2012. Catalysts of growth included an emergence of a middle class with higher disposable income, a large youth segment accepting a more western lifestyle and interest in global brands, and improved access to modern retailing formats with limited competition (Bra, 2013; Gafi, 2014a; Ramzy et al., 2011). Research has overlooked several variables including high growth activity in large, less developed regions of MENA, elevated market saturation in the U.S., and constant changes to political, economic and social systems by country. Further research is needed on how CD between home and host markets can contribute to FDI attractiveness, create mutual trade benefits, and improve quality of life in less developed, high-growth countries like Egypt (Bonaglia & Goldstein, 2006; Mottaleb & Kalirajan, 2010; Yeganeh, 2011).

This research would be significant for any U.S. retailer considering expansion in less developed foreign markets culturally dissimilar to home markets. It would provide greater understanding of the country, its consumer market and how macro-environmental determinants, specifically cultural, could create challenges, risks or opportunities for FDI. This research will highlight the importance of franchising as a strategic entry approach to mitigate uncertainty in new markets. It will also contribute to internationalization and FDI market research by exploring the models of internationalization and the impact culture has on foreign markets where limited studies have been conducted.

This study identifies common trends in foreign retail environments to determine if CD, or the difference in cultural contexts [language, gender, religion, and working styles] between home and host markets, is a significant factor in internationalization. To explore this question, ten traditional and ten modern home textiles and furnishings retailers throughout Cairo, Egypt were analyzed for a period of three months using qualitative observation. A Semantic Differential Scale (SDS) and field notes were utilized to collect attitudes or behaviors and comprehensive descriptions of ten traditional [local and independent] formats with informal retailing systems, and ten modern formats with formal retailing systems in Egypt compared to U.S. markets. Data were converged to find differences and similarities in retail formats catered to the country's culture, including language, gender, religion and working styles, compared to U.S. markets.

CHAPTER 2. LITERATURE REVIEW

Internationalization Definition and Models

Internationalization is defined as the process in which retailers shift operations from domestic to foreign markets. It is a key strategy for retailers to minimize dependence on home markets, target new distribution channels and strengthen positions as global competitors. Literature suggested the Uppsala, Eclectic paradigm and transaction cost analysis as three theoretical models that influence the internationalization process (Aliouche & Schlentrich, 2011; Al Qur'an, 2010; Eroglu, 1992; Park & Sternquist, 2006; Ramzy et al., 2011; Yeganeh, 2011).

Uppsala

The Uppsala model of internationalization provides retailers a step-by-step approach based on knowledge acquisition and risk. The model asserted retailers expand first to markets that are similar to domestic markets and then with experience, gradually expand to more distant markets that become less similar. This approach suggested retailers favor foreign markets that exhibit similar economic, political and cultural systems and in turn, offer lower levels of involvement and financial commitment. Franchising or licensing is the predicted mode of entry, as low commitment markets require less investment and regulation (Aliouche & Schlentrich, 2011; Benito & Gripsrud, 1992; Eroglu, 1992; Forsgren, 2002; Johanson & Vahlne, 2009; Sternquist, 2007).

Eclectic Paradigm

The Eclectic paradigm model of internationalization provides retailers an entry approach based on three competitive advantages. The model asserted ownership, location and internalization as factors that determine both market selection and entry strategy. Ownership advantages include unique products or processes, such as private label and advanced sales methods, which give retailers a competitive market advantage. Location advantages include host market environmental characteristics, such as culture, size, and cost of land and labor retailers employ to see how well the host country fits with home markets. Internalization advantages protect internal company information and occur when ownership advantages are transferred from home and host markets. This approach suggested that when all three advantages are integrated, the predicted entry strategy is direct or own store investment (Aliouche & Schlentrich, 2011; Dawson, 1994; Dunning, 2001; Sakarya et al., 2006; Sternquist, 2007).

Transaction Cost Analysis

The transaction cost analysis model of internationalization asserted the costs of finding and negotiating operations internally with an external environment influence market selection and entry strategy. This approach suggested the predicted expansion pattern is direct or own store investment, as retailers can monitor external partners and in turn, profit from economies of scale (Brouthers, 2002; Sternquist, 2007). Brouthers (2002) integrated cultural determinants into this model alleging cultural differences between home and host markets influenced cost and organizational performance by disturbing the flow of internal information (Aliouche & Schlentrich, 2011; Anderson & Gatignon, 1986; Brouthers, 2002; Sakarya et al., 2006; Shenkar, 2001; Sternquist, 2007). Furthermore, this suggested risks increase when two markets that exhibit differences in business language, gender, religion and working styles merge (Anderson & Gatignon, 1986; Eroglu, 1992; Johanson & Vahlne, 2009; Kogut & Singh, 1988; Yeganeh, 2011).

<u>Similarities</u>

The three theoretical models provide diverse contributions to the internationalization process. Overall, the key trend is retailers internationalize in foreign markets at a gradual pace to mitigate uncertainty and risk. Culture has also been identified as a factor in market selection and mode of entry, host country attractiveness and organizational performance (Aliouche & Schlentrich, 2011; Johanson & Vahlne, 2009; Kogut & Singh, 1988; Sakarya et al., 2006). This suggests internationalization has shifted from a single to a multi-dimensional process to include macro-environmental or uncontrollable external determinants, such as host country culture (El-Amir & Burt, 2008; Kogut & Singh, 1988).

Cultural Distance Definition and Problem

Internationalization and FDI literature has shown interest in host country culture as a soft determinant in global trade. However, there is much ambiguity about its influence on foreign market selection and entry mode of U.S. retailers (Bhardwaj et al., 2007; El-Amir & Burt, 2008; Kogut & Singh, 1988; Park & Sternquist, 2006; Yeganeh, 2011; Yeniyurt & Townsend, 2003). Culture refers to shared attitudes, meanings, languages and beliefs that distinguish one social group from another (Benito & Gripsrud, 1992; Nahavandi, 2012; Northouse, 2010; Sternquist, 2007; Yeganeh, 2011). Dupuis and Prime (1996) stated that culture shaped the behavior of the entire retail environment from customers, employees and suppliers, to the merchandise, marketing and communication mix. Munter (1993) and Rook (2013) added different cultures do not necessarily share the same behaviors. What is valued or acceptable behavior in one country may not be valued in others.

Dawson (1994) and Ramzy et al. (2011) suggested retailers must understand cultural differences in foreign markets to develop relationships with suppliers and consumers. House et al. (2002) and Zacharakis (1996) added differences in language and working styles influence business decisions. Therefore, cultural contexts should be considered when U.S. retailers expand internationally. For example, studies found North Africa, including Algeria, Egypt, Libya and Morocco, ranked very low in English proficiency. Low English proficiency levels are a “serious handicap" for these countries, as the English Proficiency Index reported a "strong correlation between English language proficiency and higher levels of exports, more FDI inflows, better business environments and greater competitiveness" (Romdhani, 2012, p. 12). Moreover, Nahavandi (2012) and Neuliep (2012) stated culture is a learned behavior that can change as individuals adapt to new environments. Thus, leadership plays a key role in guiding others to shift uncertainty about cultural differences and view as opportunities for growth.

Literature suggested foreign markets that exhibit similar cultural behaviors are more attractive locations for FDI, as differences may make it more challenging to understand and predict consumer behavior in dissimilar markets (Bhardwaj et al., 2007). Such differences are referred to as CD theory. Eroglu (1992), Hofstede (1980), and Kogut and Singh (1988) defined CD as the degree to which cultural norms or beliefs differ between home and host markets. CD involves differences in language, gender, religion, business practices and working styles (Hofstede, 1980; Nahavandi, 2012; Sakarya et al., 2006). Research has explored the influence of CD on market selection and entry mode. However, it is often difficult to measure results, as cultural differences are generally viewed as natural barriers in global trade (Sakarya et al., 2006; Yeganeh, 2011). This leads to the research question, how does culture influence market selection and entry mode of U.S. retailers in culturally dissimilar markets?

Host Country Culture as a Significant Determinant

Several studies found CD a significant factor in internationalization. Research argued the success or failure of internationalization was determined by the fit with host country culture and that the transfer of successful business procedures to culturally dissimilar markets involved added costs and risks (Benito & Gripsrud, 1992). Anderson and Gatignon (1986) added that higher degrees of CD between home and host markets influenced retailers in two ways. First, retailers encountered extra operational and transaction costs due to differences in business language and training styles. Second, risks increased due to problems in "understanding and appealing to local demand, where product and promotion modifications are required" (Anderson & Gatignon, 1986; Benito & Gripsrud, 1992; Eroglu, 1992, p. 27). This suggested cultural differences in business operations influenced market selection and therefore, increased market uncertainty. It also suggested higher levels of CD between home and host markets increased perceived risks and costs for internationalization, which lowered perceived opportunities (Anderson & Gatignon, 1986; Bhardwaj et al., 2007; El-Amir & Burt, 2008; Eroglu, 1992; Kogut & Singh, 1988). This generates another research question, how does host country culture increase perceived risks and lower perceived opportunities for internationalization in dissimilar markets?

Eroglu (1992) defined perceived risk as the uncertainty retailers encounter when unable to predict consequences of internationalization decisions, based on probability and outcome performance in foreign markets. Financial risk was found as the most significant factor to determine uncertainty in foreign markets for two reasons:

> First, a financial gain or loss intimately influenced the most critical goal of retailers – namely, its survival. Second, financial risk represented an opportunity cost where decision makers gave up the opportunity to consider other utility-providing alternatives. This argument is consistent with the underlying premises that trade-offs between perceived risks and perceived benefits ultimately determine the intention and action to internationalize. As such, the external environment was identified as a factor that determined the extent to which decision makers' assigned risk to the internationalization process. More specifically, external factors such as host country culture influenced the

> cost/benefit of entry mode through impact on the perceived risks and perceive benefits of the internationalization decision. This suggested the higher the fluctuations in these dimensions, the higher the risk of undertaking activities in the host country and the lower the desire to enter that market. (p. 23)

Host Country Culture as an Insignificant Determinant

Conversely, more recent studies that measured the effect of CD found it to be an insignificant factor. Studies found the effect of CD subversive to internationalization, specifically when retailers utilized a strategic entry approach. Research argued retailers generally ignored cultural differences in foreign markets, as retail operations proved no more challenging than entry into familiar markets and therefore, increased market certainty. Yeganeh (2011) added economic factors, such as gross domestic product (GDP) rates, obliterated cultural differences in foreign markets and that culture was based on assumption, rather than factual data.

Additionally, a case study conducted by Ramzy et al. (2011) found 36.4 percent of 31 U.S. retailers tested, indicated the most important factor in foreign market selection was economic based. Only 4.8 percent indicated culture as an important factor. This finding supports that culture is not a determining factor in internationalization, as the host country's economic factors, including GDP rates, play a stronger role in attracting FDI (Mottaleb & Kalirajan, 2010). It also suggested CD between home and host markets increased perceived opportunities for internationalization, which lowered perceived risks (Aliouche & Schlentrich, 2011; Park & Sternquist, 2006; Sakarya et al., 2006; Yeganeh, 2011). This generates another research question, how does host country culture increase perceived opportunities and lower perceived risks for internationalization in dissimilar markets?

Yeganeh (2011) argued cultural differences are not necessarily risk factors in internationalization, rather mutual trade benefits between home and host markets. For example, foreign markets that exhibit dissimilar economic and cultural systems can create a complementary internationalization process for U.S. retailers. Home and host markets may engage in a mutual trade relationship seeking different, yet complementary goals: home markets seek capital and investment, whereas host markets seek labor opportunities (Johanson & Vahlne, 2009; Yeganeh, 2011). This relationship has the potential to improve and increase income levels by raising labor standards, and minimize gender inequality in developing populations like Egypt.

Additionally, it has the potential to increase capital, technology, and competition (Mottaleb & Kalirajan, 2010), while providing growth opportunities for U.S. retailers in new markets that increase opportunities and lower risks. In fact, mutual trade relationships were found to "involve less friction between partners, as it takes place without interactions with foreign employees, suppliers and other social and institutional factors" (Yeganeh, 2011, p. 389). Therefore, retailers must be able to communicate cultural differences in the internationalization process (Johanson & Vahlne, 2009; Yeganeh, 2011).

Strategic entry approach

While literature provided contrasting views on the influence of host country culture on market selection and entry mode, culture is still an important aspect to consider in the internationalization process. Nahavandi (2012) and Neuliep (2012) stated culture is a learned behavior that can change as individuals adapt to new environments. Therefore, leadership and employee training play a key role in guiding others to shift uncertainty about differences and view as opportunities for growth. Yeniyurt and Townsend (2003) added culture is a macro-environmental determinant that cannot be controlled, but rather managed with a strategic entry approach. Aliouche and Schlentrich (2011) recommended retailers consider franchising to lower perceived risks related to cultural differences in foreign markets. This suggested retailers would benefit by standardizing global training and business procedures with external partners, such as franchisees. According to the Egyptian Franchise Development Association (EFDA), franchisers not only creates jobs and introduces new skills into an economy, but is also the "easiest way to transfer knowledge and foreign know-how" (Goudineau, 2012, p. 2) in an unfamiliar market.

Moreover, FDI literature projects CD on market selection and entry mode will diminish, as technological advances, acceptance of modern retailing concepts in foreign markets and globalization will lessen its role in the internationalization process (Aliouche & Schlentrich, 2011; Ramzy et al., 2011; Yeganeh, 2011). Hence, this study proposes host country culture is an insignificant factor in market selection and entry mode in foreign countries with modern retailing formats. The following section provides an analysis of Egypt's retailing industry, including traditional and modern formats.

CHAPTER 3. EGYPT'S RETAIL LANDSCAPE

Egypt is MENA's largest and fastest growing country with a diverse population of 85 million (Beillard, 2013; Euromonitor International, 2012a; Euromonitor International, 2012b; Gafi, 2014a; Rady, 2012; Ramzy et al., 2011). An estimated 90 percent of the population is Muslim, highlighting the importance of the Islamic religion (Beillard, 2013). The country ranked high among the top MENA countries as an emerging market for FDI in 2011, but dropped to a vulnerable market status in 2013 due to continued political and social unrest (Ben-Shabat, Moriarty, & Neary, 2011; Euromonitor International, 2012b; Hales & Pena, 2012; Rady, 2012; Ramzy et al., 2011). Prior to the 2011 revolution, Egypt witnessed impressive FDI inflows due to former president H. Mubarak's efforts toward modernization, including an open market policy. H. Mubarak's government worked with several groups to liberalize Egypt's economy by lowering taxes, encouraging competition and attracting and increasing FDI since 2006. Such policies doubled the country's annual economic growth rate by seven percent in 2011 (Lynch, 2011; Rady, 2012).

While political instability has created challenges for Egypt, the future market potential is lucrative. Economists project the economic situation to stabilize and increase ten percent by 2018. Egypt's merchandise trade volumes are also expected to increase to USD $200 billion by 2025 from USD $60 billion in 2010. Additionally, GDP growth of 6.3 percent is projected by 2017 from 4.2 percent in 2014. The country's competitive strengths, including sheer market size, high population and middle class growth and geographical location, provide opportunities for market expansion. Egypt is strategically positioned as a gateway to the rest of Africa and the Middle East and its closeness to Europe makes it an attractive market with logistics activities employed by U.S. retailers. The country's quality transport system including the Suez Canal, strongly influences its ability to participate in global economic activity. The government collected USD $5.0 billion from Suez Canal transit fees in 2011 and 2010 (Bonaglia & Goldstein, 2006; Euromonitor International, 2012a; Euromonitor International, 2012b; Gafi, 2014a; Gafi, 2014b; Lynch, 2011; Rady, 2012; Ramzy et al., 2011).

Investing in Egypt

Global franchises have operated in Egypt for over 30 years. Franchising has attracted USD $3.8 billion in FDI since 2011, employing over 270,000 locals with an estimated USD $1.7 billion in sales annually. Apparel and accessory brands hold 50 percent of the franchising segment. The American Chamber of Commerce in Egypt reported dramatic growth in global franchising following the 2011 revolution. This segment increased an impressive 19.4 percent in 2012 to 430 global brands, indicating Egypt's resilience and FDI attractiveness, as presented in Figure 1. In fact, Egypt attracted the most investments in the MENA region with 20 percent in 2013 (American Chamber [AMCHAM], 2013; Euromonitor International, 2013a; Goudineau, 2012; Parasie, 2014).

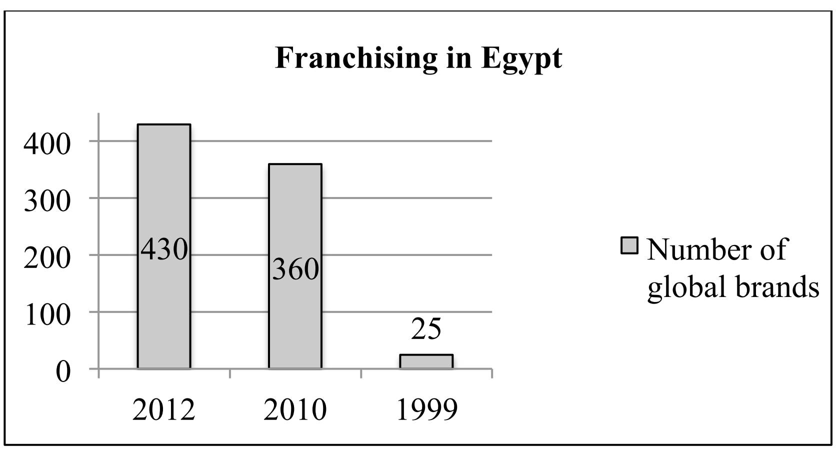

Figure 1. Franchising in Egypt.

Additionally, global brands have maintained a compound annual growth rate (CAGR) of 14.2 percent since 2007 in Egypt and are projected to reach 16.8 percent by 2016. Growth is triggered by modern shopping mall development in global cities, providing appealing locations and facilities linked to economic and human development (AMCHAM, 2013; Euromonitor International, 2013a; Goudineau, 2012; Hales, Peterson, Pena, & Gott, 2014; Parasie, 2014). Although retail sales declined 3.4 percent in 2012, a turnaround is expected. Egypt's Minister of Trade, Industry and Investment, M. Nour, stated home textiles products a significant category to future economic growth (AMCHAM, 2013; Gafi, 2014b).

Home Textiles

Consumer demand for household or home textiles products, specifically Egyptian cotton, leads Egypt's retailing industry with USD $8.0 million in 2012, as presented in Table 1; a 127 percent increase over apparel, the number two category. The contributing factor is that Egypt is the only textiles industry in MENA offering the entire manufacturing process from cultivation to production. Egypt's textiles market comprises of over 4300 retailers, employing 30 percent of the country's labor force with an investment of USD $5.85 billion in 2014 (AMCHAM, 2013; Gafi, 2014b).

Table 1.

Consumer products: Market demand in Egypt (USD million).

	2012	**2011**	**2010**	**2009**	**2008**	**2007**
Apparel	$3.53	$3.51	$3.18	$2.76	$2.36	$2.03
Household Furniture	$1.43	$1.41	$1.30	$1.12	$0.97	$0.84
Household Textiles Products	**$8.04**	**$8.21**	**$7.64**	**$6.82**	**$5.94**	**$5.28**
Soaps and Cleaners	$2.82	$2.78	$2.50	$2.16	$1.80	$1.55
Electrical Appliances and Housewares	$0.63	$0.64	$0.61	$0.53	$0.44	$0.38

(AMCHAM, 2013).

Risks

There are risks that could influence FDI while pressuring retail growth in Egypt, despite a positive outlook. These include an uneducated labor market, high youth unemployment, low levels of tourism and a depreciating pound (AMCHAM, 2013; Farid & Aggour, 2014).

Labor market. A significant challenge is the country's labor market. The current market is overregulated and poorly educated, with an estimated one-third of the population illiterate and 17 percent below poverty level (Lynch, 2011; United Nations News Centre, 2013). This limits the country's ability to employ skilled and educated workers. World Economic Forum's Global Competitiveness Report ranked Egypt 135 out of 142 countries in quality of the educational system, 131 out of 142 in quality of primary education, and 107 out of 142 in higher education and training (Schwab, 2010), resulting in an unbalanced and divided two-tier education system. Wealthy upper class Egyptians pay for tutors and attend private schools, while the majority of Egypt's population, the poor lower-class, receive basic and limited public school education ("A slow learning curve," 2010).

Egypt has also failed to secure its position in the global supply chain due to its limited education system and insufficient supplies of skilled labor. Despite a competitive advantage with strategic trade routes to Africa, the Middle East and Europe, unskilled labor caused U.S. retailers to purchase products elsewhere or in limited amounts. For example, U.S. retailer Nike Inc., the largest producer of athletic footwear, purchases apparel and footwear from over 40 Vietnamese manufacturers, employing over 200,000. With a similar population to Vietnam, Egypt also produces products for Nike Inc., but in only five manufacturing facilities with 5,000 employees (Lynch, 2011).

Yet, Egypt's labor force is abundant and highly affordable, which can "significantly affect the inflow of FDI by attracting cost-cutting and efficiency-seeking FDI" (Gafi, 2014a; Mottaleb & Kalirajan, 2010, p. 376). Moreover, Egypt's Minister of Trade, Industry and Investment, M. Nour, enforced specialized training programs for skill development and to increase the country's production capacities in the home textiles market in 2013 (Gafi, 2014a).

Youth unemployment. Additionally, populations of developing countries like Egypt are becoming younger; making it a challenge to meet the development and employment needs of younger consumers (Goldin & Reinert, 2007). A concern is the widespread unemployment rate of Egypt's mostly educated young population under the age of 30, a third of the population (Gafi, 2014a; Schwab, 2010). The country's unemployment rate reported 12 percent in 2012. Youth unemployment is double that level (Kirkpatrick & Sheikh, 2012), which is concerning, since 60 percent of Egypt's population is under the age of 30 ("Egypt's economic crisis," 2012).

Roughly 700,000 Egyptians under the age of 30 enter the country's labor market annually. If this young population cannot find work, they may grow impatient and protests or demonstrations will continue ("Business in Egypt," 2011; Euromonitor International, 2012a). The International Monetary Fund (IMF) estimated that by 2020, Egypt must produce ten million jobs in order to absorb current unemployment levels. The economy will need to develop at a yearly rate of ten percent, which is twice the country's average (Lynch, 2011). Value-added economic activities, such as global franchising, software development, information technology and service-related occupations where English proficiency is important, are ways to resolve the country's youth unemployment (Romdhani, 2012).

Government debt. Government debt also poses a challenge for FDI. While some debt has reduced, inflation and the budget deficit continue to increase (Steinbock, 2011). After the

2011 revolution, Egypt's key source of foreign currency, tourism, fell to an all time low (Bonaglia & Goldstein, 2006; Bradley, 2012). Tourism provides Egyptians with one job for every seven and is 11 percent of Egypt's GDP. Foreign arrivals declined 35 percent in April 2011, costing the country USD $2.0 billion ("Business in Egypt," 2011; Euromonitor International, 2012a; Euromonitor International, 2013b). Local currency also continues to depreciate against the U.S. dollar due to a poor political climate and low tourism revenues. Political stability with a government that continues to take part in an open market policy is a vital strategy to stabilize the value of the Egyptian pound and attract tourism (Beillard, 2013; Bradley, 2012; Farid & Aggour, 2014; Lynch, 2011).

Divided Retailing Systems

Developing countries are often made up of small, independent family-owned stores or kiosks characterized by fragmented markets (Sternquist, 2007). Yet, Egypt's retailing industry is an investment opportunity for U.S. retailers due to H. Mubarak's efforts and a consumer shift toward modernization. The country's retailing industry has divided into two distinct markets: traditional with informal retailing systems and modern with formal retailing systems (Gafi, 2014a; Ramzy et al., 2011).

Traditional Format

An estimated six million independent sellers or street vendors that employ unreported informal retail systems dominate Egypt's retailing industry. Smaller-scale formats, including atomistic competition, longer channels, limited product assortment, cash only transactions and flexible pricing with bargaining, characterize informal retailing. While large store retailers dominate the U.S. market, Egypt is made up of tiny, independent or family-owned stores and kiosks. The typical Egyptian retail store is between 200 to 500 square feet and the workforce is male dominated. Retail outlets are also generally located in crowded, dual-use residential buildings where the owner lives and works with no parking facilities. This limits the opportunities for large chain retailers and private branding within the Cairo metro area. Inventory is disorganized and out-of-stock situations occur on a daily basis. In fact, these stores are so small there are no fitting rooms and merchandise and inventory is often stacked high in no particular order along any available wall to maximize space. Traditional Egyptian retailers also monitor transaction and inventory in hand-written logbooks, rather than utilize modern technology with cash registers (Dholakia & Sinha, 2005; El-Amir & Burt, 2008; Ramzy et al., 2011).

Like most developing countries, the majority of purchasing power is from low-income consumers with a preference for traditional formats that utilize the old, customary price is negotiable approach. Local retailers rarely mark prices to allow price discrimination between local and foreign customers. Generally, foreigners pay a premium compared to locals and bargaining is expected. Low-income Egyptians prefer simple, verbal transactions with no sale tax or receipts. Egyptians are culturally loyal to small, independent family-controlled retailers and value group membership to personal independence. However, with no sales receipts, merchandise returns are challenging for customers (Beillard, 2013; Bonaglia & Goldstein, 2006; El-Amir & Burt, 2008; Euromonitor International, 2012a; Ramzy et al., 2011; Sternquist, 2007). Even so, informal retailing with cash only transactions reported USD $16.0 billion in 2011. Euromonitor International (2012a) added that “the value of goods sold by these independent sellers, represented an impressive amount of the country’s black economy, estimated at 40 percent of GDP” in 2011 (p. 19).

Modern Format

While traditional formats penetrate Egypt's retailing industry, an emergence of an advanced modern retail system attracted attention of several U.S. retailers. For example, American Eagle Outfitters, Ashley Furniture, Bath & Body Works, Payless ShoeSource, The Gap, Inc., and European retailer IKEA, opened outlets in Egypt despite unrest. This shift is the result of modern business and retailing changes driven by a large middle class with higher disposable income, and a youth segment under age of 30 accepting a more western lifestyle with interest in global brands. Moreover, a 72 percent increase in middle class households is expected by 2018 ("AEO expands," 2011; Ben-Shabat et al., 2011; Euromonitor International, 2012a; Euromonitor International, 2013a; "Gap Inc.," 2011; Gafi, 2014a; PR Newswire, 2011; Ramzy et al., 2011).

Egypt's retail landscape has also witnessed a shift to modernization. Traditional formats continue to decline as more consumers are converting to modern retailing methods. City Stars, the largest shopping mall in MENA opened in Egypt in 2005. Economists project this trend to increase and the market will continue to benefit from increased shopping mall construction in global cities that emulate U.S. markets. Additionally, U.S. retailers can benefit from larger and cheaper land due to an increase in construction of new global cities in isolated areas. These cities are designed to accommodate upper-income Egyptians with a preference for larger housing that also emulates U.S. housing markets. Private label is another trend that witnessed strong growth and is projected to continue (El-Amir & Burt, 2008; Euromonitor International, 2012a; Gafi, 2014a; Ramzy et al., 2011).

CHAPTER 4. METHODS AND MATERIALS

A qualitative research approach was selected to understand and observe cultural contexts in foreign markets. Creswell (2009) defined qualitative research as a descriptive approach to explore and understand a social construct of meaning in a natural environment. This process allows the researcher to collect descriptive information and analyze data to build a common pattern or trend (Suter, 2012; Creswell, 2009; Kawulich, 2005). The data collection method for this study was unobtrusive observation of Egypt's retail environments as a complete or passive observer. An advantage of this type of observation is that it generates more in-depth, descriptive comprehensive data. It also allows the researcher to directly see and collect cultural behavior patterns and social contexts, differences and activities in a natural setting as they occur, rather than participating and providing self-reported based perceptions (CDC, 2008; Creswell, 2009; IPDET Handbook, 2007; Kawulich, 2005; Key, 1997; Mack, Woodsong, MacQueen, Guest, & Namey, 2005).

Limitations

There are limitations involved with observation as a data collection method. First, observation relies on memory, attentiveness and discipline of the researcher. It is often difficult to document all behaviors and activities as they occur. Therefore, the quality and quantity of data could be impaired. To ensure reliability, the researcher must conduct and document observations through a structured approach. This requires all data be collected in exactly the same way at repeated times to maintain stability. It also helps the researcher draw conclusions to develop patterns or theories by comparing notes. Second, observation collection is inclined to personal bias. Kawulich (2005) and Mack et al. (2005) argued that the researcher must understand the difference between describing what was observed, as opposed to interpreting what was seen to avoid bias (CDC, 2008; IPDET Handbook, 2007; Kawulich, 2005; Key, 1997; Mack et al., 2005). Third, although more common in interview collection, cultural and gender differences between researcher and participants may impair research data. For example, Egypt's workforce is male dominated. Therefore, it may be inappropriate or intrusive for a female researcher to conduct observations, unless a male companion is present (Creswell, 2009; El-Amir & Burt, 2008; IPDET Handbook, 2007; Mack et al., 2005).

Instrumentation and Procedure

To obtain in-depth descriptions and evaluate Egypt's traditional and modern retailing formats to U.S. markets, the instruments used to collect data included a Semantic Differential Scale (SDS) and field notes, as presented in Appendix A and B. The seven-point scale measured attitudes toward the foreign retail environment observed, ranging from opposing adjectives such as convenient-distant, accessible-limited, appealing-unappealing, welcoming-uninviting, well-styled-cramped, clean-dirty, large-small, abundant-scarce, innovative-outdated, complex-simple, high-low, modern-conservative and unimportant-prominent. The researcher rated attitudes toward the foreign retail environment observed, where four as neutral and one or seven as most extreme (Ajani & Stork, 2013; UC Davis, n.d.).

Field notes measured attitudes toward the foreign retail environment through general visual observations in a natural setting as it occurred (CDC, 2008; Creswell, 2009; IPDET Handbook, 2007; Mack et al., 2005). This included observing differences in business language, gender, religion and working styles compared to U.S. markets. For business language, the researcher described if employees in the retail environment spoke English. For religion, the researcher described if employees in the retail environment observed the Islamic Hour of Prayer and if so, what did they do. The researcher also described employee appearance, including modern or conservative dress. Conservative dress included the Islamic galabeya or a long loose-fitting robe for males and for females, a hijab or a scarf to cover hair (Slackman, 2007). For gender, the researcher described if the retail environment was male dominated and if not, how many female employees were present. For working styles, the researcher described if there was uniformity, modern technology with cash registers, pricing on merchandise, level of customer involvement with locals and foreigners, and return policies.

In-store observations were conducted in plain view at ten traditional retail formats in Maadi, Cairo, a city largely populated by foreign expatriates, and ten modern retail formats in Maadi and Heliopolis, Cairo, including City Stars Mall, all which sell furniture, textiles and accessories for the home. Traditional formats included small, independent or family-owned specialty stores that "concentrate on limited amounts of complementary merchandise categories" (Levy & Weitz, 2009, p. 49). Modern formats included IKEA and ZaraHome, both global retailers and category specialist stores, the multinational retailer and hypermarket chain Carrefour, and several specialty stores with chains throughout MENA, including Istikbal and Oriental Weavers (Levy & Weitz, 2009; Sternquist, 2007).

The researcher was prepared to openly state presence and purpose to avoid potential ethical or cultural issues, as the environment and public were unaware of being observed (IPDET Handbook, 2007; Kawulich, 2005; Mack et al., 2005). The study observed operational and physical surroundings in one hour increments, including shop floor behavior, demographics, general staff appearance, aesthetics, product assortment, transactions, and employee and customer interaction, to find differences in cultural contexts [business language, gender, religion and working styles] compared to U.S. markets. The researcher conducted the study during periods that overlapped with the Islamic hour of prayer, which is five times per day (Slackman, 2007). Time periods ranged from 12:00pm, 3:00pm, 5:30pm and 7:00pm.

The procedure included two steps. A SDS was utilized in step one to evaluate the external and internal retail environment compared to U.S. markets. The second step was to write descriptive field notes related to culturally specific information, such as the host country's business language, religious influences, gender, working styles, behavioral patterns and interaction between employees and customers. Data were collected for a period of three months to find differences in retail formats that cater to the country's cultural contexts compared to U.S. markets.

Data Analysis

Text or language-based and visual images, such as words or symbols, are utilized as data in qualitative research, rather than statistical numbers. For example, in quantitative data analysis, the statistical focus is the *p* value. In qualitative data analysis, the *p* value is replaced by language-based or visual data, which can be analyzed through a coding process. A code is generally a keyword to summarize descriptive paragraphs gathered during observation data collection. Since the sample size was too small to conduct a statistical test, a coding process was utilized to organize text-based and visual data to link and label specific categories. To conduct the data analysis and identify CD patterns of Egypt's retail environment, the researcher followed Creswell's (2009) six-step approach to data analysis in qualitative research (Suter, 2012; Creswell, 2009, p.185; Saldana, 2009).

In step one, the researcher converted raw data to computer files. This process included entering hand-written field notes and visual images in a Word document. Step two, the researcher reviewed all field notes and SDS results to sort information and obtain an overall meaning. Scores for each of the items on the SDS were averaged and divided by number of items (13) to determine each retail environment's score. Score interpretation included: 0.0-1.99 = very negative; 2.0-2.99 = negative; 3.0-3.99 = moderately negative; 4.0-4.99 = undecided/neutral; 5.0-5.99 = moderately positive; 6.0-6.99 = positive; and 7.0-7.99 = very positive (Ajani & Stork, 2013; UC Davis, n.d.). A higher total score indicated the retail environment emulated U.S. markets. The researcher also narrowed down descriptive paragraphs from raw data into sentences.

In step three, the researcher narrowed down sentences into key words to develop a solo coding process. Data codes were arranged in an Excel spreadsheet to build recurring patterns and conduct an overall analysis of the data. Step four, the researcher developed themes and descriptions based on frequency and similarities and differences in traditional and modern formats. In step five, the researcher created a visual, condensed table to interconnect themes, as presented in Table 2 and Appendix C. Lastly, in step six the researcher combined all steps to find the overall pattern or trend (Creswell, 2009; Mack et al., 2005; Saldana, 2009).

Table 2.

Overall assessment of Egypt's retailing formats compared to U.S. markets.

	Traditional	**Modern**
External Conditions	[1]Lack of inviting atmosphere	[2]Emulates U.S. markets
Internal Conditions	[1]Lack of inviting atmosphere [3]Technology Issues [4]Religion [5]Limited customer service	[2]Emulates U.S. markets [4]Religion

Verification

The primary verification strategy employed were the use of thick, rich descriptions to establish credibility and trustworthiness of findings and conclusions in the study. Creswell

(2009) asserted rich descriptions of the observed environment may "transport readers to the setting and give the discussion an element of shared experiences" (p. 191). By describing the setting, environment, processes, participants, interactions and the researcher's role in a holistic approach, the detailed descriptions should connect readers to the setting and provide a stronger and meaningful understanding of the context. Thus, developing a more realistic and complete picture for readers that also add external validity to the study. Another strategy employed to establish credibility is prolonged and varied field experience. The researcher spent four years in Egypt prior to conducting the study. During that time, the researcher developed an in-depth visual understanding of the two retailing formats with persistent engagement with the environment being studied. Thus, the more experience the researcher had with the observed environment, the more accurate the findings or conclusions, which also adds to external validity of the research (Al Qur'an, 2010; Suter, 2012; Creswell, 2009; Kawulich, 2005; Key, 1997).

CHAPTER 5. RESULTS

A single researcher, an American expatriate located in Maadi, Cairo, Egypt completed the SDS and field notes. Of the retail environments observed, results found Egypt's modern formats with formal retailing systems emulated U.S. markets with an average combined SDS score of 6.0 or positive. Conversely, results found Egypt's traditional formats with informal retailing systems did not emulate U.S. markets with an average combined SDS score of 2.8 or negative, as presented in Table 3.

Table 3.

SDS average scores of each retail environment observed.

	Traditional	Modern
Location: Convenient - distant	1.9	5.8
Parking: Accessible - limited	1.1	5.2
Exterior: Appealing - unappealing	2.8	6.9
Environment: Welcoming - uninviting	3.2	6.8
Aisles: Well-styled - cramped	3.0	6.5
Interior: Clean - dirty	3.3	6.6
Store size: Large - small	2.4	6.6
Products: Abundance - scarcity	4.8	6.7
Point of Sale: Innovative - outdated	1.9	6.9
Credit System: Complex - simple	1.3	6.8
English proficiency: High - low	5.5	6.6
Dress: Modern - conservative	3.9	4.3
Islamic Prayer: Unimportant - prominent	1.0	2.3

For business language, surprisingly from what research suggested about North African countries and low levels of English proficiency (Romdhani, 2012), all retail environments [traditional and modern] in Egypt spoke some English. In fact, modern formats ranked 6.6 or positive and traditional formats ranked 5.5 or moderately positive in English proficiency. For gender, field notes found a higher number of female employees present in all modern formats to traditional formats.

For religion, the Islamic religion was observed in regular business procedures in both retailing formats. Modern formats scored 2.3 or negative and traditional formats scored 1.0 or very negative in prominence of religion. Moreover, stores were either closed during hour of prayer, which is five times per day, or remained open. In traditional and some modern formats, employees kneel and pray in the middle of the store, while customers continue to shop. In most modern formats, employees pray in a separate room apart from customers. Also, most traditional formats were closed on Fridays, which is the Islamic Holy Day of rest, or opened at 1:30 p.m. (Euromonitor International, 2012a; Slackman, 2007). Both formats displayed hour of prayer on television screens throughout the store or on overhead speakers. Also, religious influences on staff appearance were common in traditional formats. Majority of staff wore a galabeya and females wore a hijab to cover hair, which is mandatory dress for the Islamic religion, specifically on Fridays.

For working styles, modern formats utilized technology with cash registers and formal credit, while all traditional formats utilized cash only transactions or informal credit with hand-written logbooks. Moreover, some employees in traditional formats did not record the transaction. In most traditional formats, majority of items did not have price tags indicating that bargaining or negotiating was required, while pricing was evident in all modern formats. Also, there was physical evidence in several traditional formats that the owner lived and worked inside the store. In most traditional formats, the owner unlocked/locked door and turned on/off lights when customer(s) entered/left store. Additionally, it appeared employees in traditional formats were more involved and aggressive with foreign customers as compared to locals in modern formats.

Overall, traditional and modern formats scored similar in level of English proficiency, conservative dress and religious influences on business operations, as presented in Figure 2. This suggests Egypt is an exception to North Africa, in that most people do speak moderate English, a benefit for internationalization, and that the only differences catered to Egypt's culture in modern formats are religious influences on daily operations.

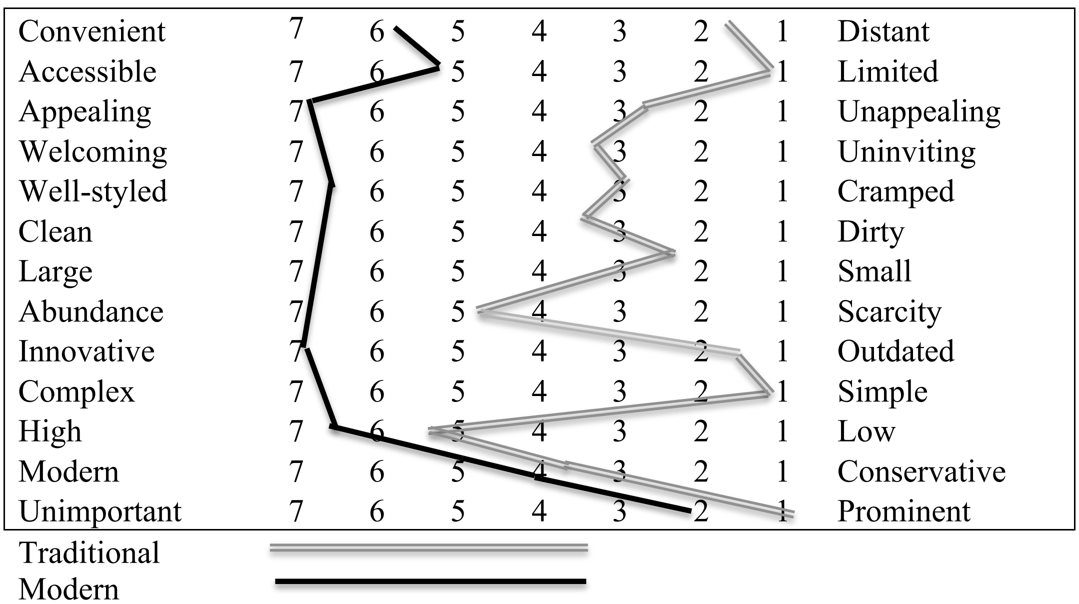

Figure 2. SDS visual results.

CHAPTER 6. CONCLUSIONS AND IMPLICATIONS

This study attempted to identify common trends in foreign retail environments to determine if CD, or the difference in cultural contexts [language, gender, religion, and working styles] between home and host markets, is a significant factor in internationalization. To find the influential factors, ten traditional and ten modern home textiles and furnishings retailers throughout Cairo, Egypt were analyzed for a period of three months using qualitative observation. A SDS and field notes were utilized to collect characteristics or descriptions of ten traditional formats with informal retailing systems, and ten modern formats with formal retailing systems in Egypt compared to U.S. markets. Results found cultural differences inherent to traditional formats in Egypt, but no significant differences were found in modern formats compared to the U.S. This research confirmed host country culture is an insignificant factor in foreign market selection and entry mode in modern retailing formats, and that cultural differences can be managed with a strategic entry approach.

Egypt's retail environment was selected due to its sheer market size, large population and middle class growth, geographical location, current political and social unrest, and researcher's former living status. Ramzy et al. (2011) asserted Egypt's retail environment differed significantly in comparison to the U.S. market. However, the findings from this study show only Egypt's small, traditional formats with informal retailing systems differ significantly from U.S. markets. For example, results show the following trends cater to Egypt's culture in traditional formats: price discrimination due to flexible pricing with bargaining, smaller-scale formats due to highly populated residential areas, lack of an inviting atmosphere, limited technology and religious influences on daily operations.

Conversely, Egypt's larger, modern formats with formal retailing systems were found to emulate U.S. markets with limited or no cultural differences. For example, all modern store formats, including the external and internal environment, emulated U.S. markets, as most retailers utilized franchising as a strategic entry approach. The only differences catered to Egypt's culture in modern formats include religious influences on daily operations. However, religious differences wouldn't provide one retailer a competitive advantage or disadvantage to another, as it is a common practice in Egypt.

While Egypt is a high-growth country moving toward modernization and development, progress is needed to stabilize Egypt's economy. If the new government can move forward with reforms, Egypt's retail landscape is a good investment opportunity for U.S. retailers. A shift in modern retailing, a developing middle class, large youth segment with interest in global brands and geographical location are growth factors (Bonaglia & Goldstein, 2006; Ramzy et al., 2011). The best strategy is for U.S. retailers to enter the country through a franchise agreement to mitigate uncertainty and political risk (Euromonitor International, 2013a).

While the study focused on one country, the outcomes could help U.S. retailers align expansion strategies with unfamiliar cultural behaviors found in additional high-growth MENA markets, while being mindful of cultural sensitivities. The results indicate culture as one aspect to internationalization. Culture is a learned behavior that can change as individuals adapt to new environments, and as globalization becomes more prevalent (Munter, 1993; Nahavandi, 2012; Neuliep, 2012; Rook, 2013).

There are limitations to this study. First, although Egypt is the largest and fastest growing market in MENA, the sample size is limited. The expected outcomes for Egypt may not be true for other developing MENA markets (Yeganeh, 2011). Therefore, future research should be conducted on additional high-growth developing MENA regions. Second, the only data collection method employed was observation due to time constraints and elevated political and social unrest. This research would benefit from further studies that included an additional method of data collection, such as interview with local franchisors or U.S. retailers considering expansion in Egypt. Third, observation data collection were conducted and collected by a single researcher. Threats to validity and personal bias would be mitigated if the study utilized multiple researchers. This would add a greater level of depth to the observation descriptions, as multiple researchers could compare notes and provide more in-depth descriptions and different keywords for coding data (Dholakia & Sinha, 2005; Saldana, 2009).

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APPENDIX A. INSTRUMENT

Semantic Differential Scale

Site:

Attitudes Toward Foreign Retail Environment

Location is convenient	7	6	5	4	3	2	1	Location is distant
Parking system is accessible	7	6	5	4	3	2	1	Parking system is limited
Appealing exterior	7	6	5	4	3	2	1	Unappealing exterior
Environment is welcoming	7	6	5	4	3	2	1	Environment is uninviting
Well-styled aisles	7	6	5	4	3	2	1	Cramped aisles
Clean interior	7	6	5	4	3	2	1	Dirty interior
Store size large	7	6	5	4	3	2	1	Store size small
Abundance of products	7	6	5	4	3	2	1	Scarcity of products
Innovative POS	7	6	5	4	3	2	1	Outdated or No POS
Complex credit system	7	6	5	4	3	2	1	Simple credit system
High English proficiency	7	6	5	4	3	2	1	Low English proficiency
Modern dress	7	6	5	4	3	2	1	Conservative dress
Islamic prayer unimportant	7	6	5	4	3	2	1	Islamic prayer prominent

APPENDIX B. INSTRUMENT

Observation Data Collection

Field Notes

Collector: Date:

Start Time: Site:

End Time:

Descriptive Notes

Language.

Religion.

Gender.

Working styles.

APPENDIX C. RAW DATA ENDNOTES

[1] The majority of traditional formats did not offer parking facilities; outside and inside of building was cluttered and dirty; no outside lighting or security; very small, located inside residential buildings; employees sat outside store and smoked; employees did not open store until a customer arrived - closed and locked store as soon as a customer left; no store hours

[2] The majority of stores offered the same or similar retail formats as found in U.S. markets; ramp or lot parking; visual window displays; branded logo; bright lighting; located inside a mall – specialty stores grouped near stores with similar categories; male and female employees with identification badge and uniforms; fitting rooms.

[3] The majority of stores did not utilize modern technology; no cash registers; informal credit (cash only); no receipts (customers were given hand-written receipts in Arabic or no receipt at all; bookkeeping and inventory was tracked using hand-written logbook.

[4] The majority of stores implemented religious prayer on loud overhead speakers and television screens; either closed during hour of prayer or remained open where employees physically knelt down to pray in middle of store while a customer shopped; either closed on the Holy Day (Fridays) or open after 1:30pm.

[5] The majority of stores did not offer high levels of customer service; no fitting rooms, no return policies; only accepted informal credit (cash); no printed receipts; flexible pricing with

bargaining; a male dominated workforce aggressive toward female customers, especially foreigners.