

GLOBAL SHOP LAYOUT STRATEGY ON PERFORMANCE OF MULTINATIONAL ENTERPRISES

LIU, S.¹ – GOHAIN, K.² – LI, J.^{3*}

¹ *Adam Smith Business School, University of Glasgow, Glasgow, United Kingdom.*

² *School of Business, University of Dundee, Dundee, United Kingdom.*

³ *Department of Law, Huazhong University of Science and Technology, Hubei, China.*

**Corresponding author
e-mail: liusichen2020[at]163.com*

(Received 17th September 2023; accepted 28th November 2023)

Abstract. In the backdrop of an increasingly interconnected global landscape, the phenomenon of globalization has compelled a growing number of enterprises to embark on this transformative journey. Yet, as these multinational enterprises (MNEs) navigate the complexities of international expansion, a myriad of challenges surfaces within their production and operational realms. However, there are few previous studies that combine the performance of MNCs, cultural differences and shop density to explore the relationship between them. The purpose of this paper is to explore the possible relationship between these three by using regression analysis of current era data. This study investigates the relationship between performance, cultural differences and shop density of multinational corporations using the more recent financial data of Lush cosmetic LTD. for the financial year 2022. It is found that cultural differences are weakly and negatively related to firm performance, and also weakly and negatively related to shop concentration. Nevertheless, there is a strong positive correlation between shop dispersion and firm performance. This suggests that the greater the cultural differences, the poorer the firm performance and the lower the shop concentration. The results of the study can provide a reference for MNEs to overcome the difficulties in the process of globalization. In sum, this investigation bridges a pivotal gap in the extant studies, unraveling the intricate relationships between MNE's performance, cultural differences, and the spatial distribution of retail establishments. Its findings possess the potential to inform strategic decisions and policy formulation for MNCs striving to navigate the intricate tapestry of global expansion.

Keywords: *multinational enterprises (MNEs), multinational corporations (MNCs), cultural differences, performance, shop dispersion, culture distance index*

Introduction

With the acceleration of economic globalisation, more and more transnational enterprises (MNEs) are expanding their business scale by establishing branches in different countries and regions around the world (Luo and Shenkar, 2017). In the process of global expansion, MNEs are faced with challenges from different national cultural backgrounds (Rosenzweig and Singh, 1991). The literature on cross-cultural management reveals conflicting views on whether cultural diversity enhances or hinders organisational performance. Some studies have argued that diversity provides access to a wide range of ideas, skills and innovations that can enhance performance (McLeod et al., 1996). However, others argue that it increases complexity, reduces cohesion, and inhibits communication, negatively affecting outcomes (Barjaktarovic and Jecmenica, 2011). Thus, they argue that MNEs with greater cultural distance tend to have weaker performance (Morosini et al., 1998). At the same time, MNEs' global shop placement strategy can also have a profound impact on their business performance (Pankaj, 2001).

So, how should MNEs cope with the differences between different cultures in the process of global market expansion and choose the optimal shop layout strategy to enhance their global business performance? Existing research has yet to provide a systematic and comprehensive answer to this important strategic management question.

Due to the lack of consensus on these two aspects, managers of multinational enterprises are often caught in a dilemma. How should cultural diversity be used to enhance global competitiveness? And how to decide on the size of shops in each country? Without clarity on these issues, organisational managers may make decisions that undermine the performance of the subsidiary as a whole. Therefore, as globalisation intensifies competitive pressures, it is critical to manage the relationship between cultural differences, performance, and shop size (Moran et al., 2010). This study critically reviews the literature on the impact of national cultural differences on the organisational performance of multinational enterprises (MNEs), and it synthesises interdisciplinary findings to identify the key mechanisms linking cultural diversity, performance, and shop distribution. Accordingly, it informs MNEs' strategic decisions on global expansion, particularly in terms of coping with cultural differences and selecting optimal shop placement strategies to improve overall performance in the global marketplace. Specific recommendations are made for managing cultural diversity and improving global competitiveness. In this study, Lush is selected as a case study to explore the effects of cultural differences and shop concentration on its global performance through empirical analyses using a combination of quantitative and qualitative methods, providing valuable management insights for the international expansion of multinational enterprises.

The purpose of this study is to explore the impact of cultural adaptation problems and global shop layout strategy choices on the performance of multinational enterprises (MNEs) through empirical analyses, and on the basis of this, to propose relevant management implications to fill the research gap in this area. The results of this study will enrich the theory of multinational management and strategy and provide reference for multinational corporations to formulate their globalisation strategies.

Literature review

With the development of economic globalisation, more and more multinational enterprises (MNEs) are expanding their business by establishing branches worldwide (Santangelo and Meyer, 2011). In the process of global expansion, MNEs face cultural differences from different countries, which have a profound impact on their business management (Luo, 2005). Greater cultural distance is likely to lead to lower performance of MNEs in host countries, mainly because different linguistic practices and traditions increase the difficulty of effective cross-cultural communication and management (Morosini et al., 1998). Simultaneously, cultural differences also affect MNEs' global location strategies (Kang and Jiang, 2012). Finding the right balance of strategies for each market is crucial for MNEs' performance. In addition, MNEs' shop consolidation strategy also has an impact on their performance (Gielens and Dekimpe, 2001). In summary, there is a complex relationship between cultural differences, shop dispersion and performance. MNEs need to develop effective global co-ordination and local response strategies to cope with the challenges posed by different cultural backgrounds in order to achieve superior performance in the global market.

Hofstede's cultural dimension theory and cultural cluster theory

In exploring the impact of cultural differences on MNEs, Hofstede (1980) cultural dimensions theory and cultural clustering theory make an important contribution. Through a questionnaire survey of IBM's employees in different countries, Hofstede (1980) proposes four cultural dimensions to describe national cultural differences: Power Distance, Individualism vs. Collectivism, Masculinity vs Femininity, and Uncertainty Avoidance. among them, Power Distance refers to the degree of unequal distribution of power in a society. Individualism vs Collectivism is that Individualist culture emphasises individual goals and Collectivist culture emphasises collective goals; Masculinity vs Femininity is that Masculinity culture emphasises achievement and success and Femininity culture Finally, Uncertainty Avoidance refers to the degree to which a society tolerates uncertainty (Hofstede, 2011). Later Hofstede (2011) added two more dimensions: long-term orientation and indulgence and restraint. These six dimensions formed his cultural framework (Hofstede, 2011). The strengths of Hofstede's theory are that it quantifies and systematically describes cultural differences between countries, which facilitates cross-cultural comparisons; and it provides an operationalised concept of clusters, which makes it easy for researchers to categorise sample countries (Leung et al., 2005). However, the theory also has some limitations. Firstly, the overall classification of a country ignores regional and individual cultural differences within the country. Secondly, culture is a dynamic concept, whereas the theory provides a static "snapshot" (McSweeney, 2002). Finally, categorisation is not absolute and there are gradual transitions between neighbouring clusters. Future studies may also consider adopting dynamic indicators, such as cultural integration to compensate for the shortcomings of Hofstede's theory.

Cultural distance index

Cultural distance index theory is an important cross-cultural analysis framework in international management research. Based on Hofstede (2011) model of cultural dimensions, the theory attempts to quantify the cultural differences between different countries. It was originally proposed by Kogut and Singh, which has been the subject of both extensions and refinements by other scholars (Kogut and Singh, 1988). For calculating the cultural distance index, Hofstede's cultural dimension values are used as a basis for calculating the distance between two given countries on each cultural dimension, and a weighted average of all cultural dimension distances are taken as the cultural distance index between the two countries (Roth and O'Donnell, 1996). The higher score means greater culture difference occurred between these two give countries (Barkema et al., 1996). This theory help people measure culture differences easily, but it has its shortcomings. Its basic theory which is Hofstede (1980) culture dimensions is not objective enough, and the setting of dimension weights may have an impact on the results. In addition, there is an over-emphasis on cultural differences at the national level and focus less on regional and individual differences within countries (McSweeney, 2002). Future studies may consider this newer perspective to enrich the exploration of the impact of cultural differences.

Herfindahl index

The Herfindahl index was originally used to calculate the concentration of firms in an industry. The formula for this index is (Rhoades, 1993): $H = \sum Si^2$, where "Si" is the market share of firm "i" in the industry, squared and summed over all firms. The index

ranges from 0 to 1, with larger values indicating higher industry concentration (Rhoades, 1993). Based on this method, this paper can analyse the target company's shop distribution strategy over time and in different countries. The advantage of this method is that it is simple and easy to implement, and it can visualise the degree of global dispersion by using the data of corporate shop distribution (Gielens and Dekimpe, 2001). Nevertheless, there are limitations in considering only the distribution of the number of shops. From the point of view of consumer coverage, there is a difference between having 100 shops concentrated in one city and having them distributed in 10 cities. Future research could consider constructing a more comprehensive measure of dispersion by incorporating factors such as population distribution (Noble et al., 2002).

Materials and Methods

In this paper, the research approach is deductive approach as the research approach as deductive reasoning takes into account the objectivity of the data and its strong verifiability (Johnson-Laird, 1999). Through this approach, this paper aims to explore the relationship between performance, shop discrete and cultural differences in MNEs and hopes that its conclusions will be informative for the study of MNEs. Although the sample of data chosen is not very diverse and may impair the generalisability of the results to some extent, the sample data used is still highly informative due to the limited amount of research as well as statistical data in this area. In this case, the deductive approach can provide reproducible conclusions that can be used to inform or reflect on research in this area. Considering the extremely large number of multinational groups, this paper has chosen a cosmetic company as the subject of the study because due to cultural differences, different cultural groups may have different preferences for cosmetic (Weber and De Villebonne, 2002), which will affect the sales and therefore the performance of this company. This is in line with the theme of this paper. Thus, the data for this paper is mainly derived from the 2022 annual report of Lush, a natural soap and beauty products company based in the UK. The annual report contains the financial data, operating data, etc. of Lush for the financial year 2022, which is largely derived from the company's finance department, which is responsible for keeping the books and generating the various financial statements in accordance with the accounting standards.

In this paper, we have extracted the assets, revenues, and number of shops and factories of Lush in more than 20 countries from the annual report. The paper also collects six cultural attribute scores (i.e., power distance, individualism, masculinity, uncertainty avoidance, long term orientation, indulgence) published by Hofstede (2015) on his official website to measure the cultural attributes indulgence) to measure cultural differences. Its author, Hofstede, obtained these six cultural attributes by conducting a series of surveys on most of IBM's international employees and analysing and grouping the data with the cultures of the countries to which the international employees belonged, and then measured the scores possessed by a large number of countries on these six cultural dimensions by further expanding their sample sizes. In summary, this paper mainly completes the study by re-analysing the secondary data, there are two main sources of these secondary data, one is the financial data and the production system and sales system data from the annual report of Lush cosmetic Limited, this part of the data comes from the database, the data obtained from the database has the advantages of high quality, wide coverage and standardised data processing (Gaye et al.,

2014). The other is the six cultural attribute scores published by Hofstede (2015) on his official website. The former uses total data over a one-year period in FY2022, and the data are collected from the perspective of Cross-sectional studies, comparing the company's data across countries horizontally. The latter was done by aggregating the results of Hofstede's study to obtain scores on the six dimensions of culture for the corresponding countries.

This paper focuses on the relationship between performance, shop concentration and cultural differences in MNEs, thus, three regression models will be used to test the relationship between cultural differences and performance, cultural differences and shop concentration, and performance and shop concentration respectively. For these, this paper introduces three variables that quantify the concepts of these three: the cultural distance index (Kogut and Singh, 1988), the asset conversion rate (Nurlaela et al., 2019), and the degree of shop dispersion (Rhoades, 1993). These three variables served different roles in each of the three sets of regression models. In the model to detect the relationship between cultural differences and performance of MNCs, cultural distance index (Kogut and Singh, 1988) is the independent variable and asset conversion rate (Nurlaela et al., 2019) is the dependent variable. In the model to detect the relationship between cultural differences and shop concentration in MNCs, cultural distance index (Kogut and Singh, 1988) is the independent variable and shop concentration is the dependent variable. On the other hand, in the model to detect the relationship between shop dispersion and performance of MNCs, shop dispersion is the independent variable and asset conversion rate (Nurlaela et al., 2019) is the dependent variable. Meanwhile, to control the influence of variables such as company size, management model, and financial status on the study, and also to control the influence of industry effect on the experimental results (Weber and De Villebonne, 2002), a single company is chosen as the research subject in this paper for the purpose of controlling these variables.

Results and Discussion

Cultural differences and performance

This study conducted regression analyses by taking the cultural distance index of each country relative to the country where the parent company is located as the independent variable and Lush's asset conversion rate as the dependent variable, and reflected the relationship between the two through the P-value value and T Stat value in the regression results. The results show that there is a negative and weak correlation between cultural differences and MNE performance.

Cultural differences and shop dispersion

This study conducted regression analyses by using the cultural distance index of each country relative to the parent company's country as the independent variable and Lush's shop dispersion as the dependent variable. The relationship between these two is reflected by the P-value and T Stat values in the regression results. The results show that there is a weak negative correlation between cultural differences and shop dispersion.

Performance and store diffuseness

For the relationship between shop dispersion and MNE performance, this study conducts regression analyses with Lush's shop dispersion in each country as the

independent variable and Lush's corresponding performance indicators in each country as the dependent variable. The relationship between the two is reflected through the P-value and T Stat values in the regression results. The results show that there is a strong positive correlation between cultural differences and shop dispersion.

This study investigates the relationship between cultural differences, shop concentration and firm performance of multinational companies by examining the data related to the operations of Lush Company in the year 2022. According to the experimental results, it is found that there is a negative and weak correlation between cultural differences and company performance, and there is also a negative and weak correlation between cultural distance and shop concentration, while there is a positive and strong correlation between shop concentration and performance.

Cultural differences and firm performance

The negative and weak correlation between cultural differences and firm performance supports the thesis of previous studies that the greater the cultural differences, the more obstacles a firm encounter when operating internationally, which can have a negative impact on performance (Tihanyi et al., 2005). Nevertheless, cultural differences are just one of many factors that may affect firm performance, so the impact of cultural differences on performance may be less pronounced.

Cultural differences and store concentration

The negative and weak correlation between cultural distance and shop concentration suggests that Lush's shop concentration is lower in countries with greater cultural distance. This is consistent with previous scholars' view that the greater the cultural differences, the more difficult it is for MNCs to carry out market penetration (Gillespie and Swan, 2021). Nevertheless, there is a weak correlation between cultural distance and shop concentration, which may be due to the fact that the shop layout strategy not only considers cultural distance, but also factors such as local market consumption capacity, business location choice, and traffic conditions (Alexander, 1990).

Store concentration and performance

The positive and strong correlation between shop concentration and performance supports the theory that higher shop concentration can have a more direct contribution to performance improvement by leveraging scale effects, enhancing brand power and influence, and reducing operating and management costs (Goerzen et al., 2013), thus contributing to the firm's profitability and sales performance. Consequently, concentration has a stronger positive effect on performance than the indirect effect of cultural differences.

Conclusion

The following conclusions may be taken from the research findings and associated analysis. First, the operational challenges and unpredictabilities brought on by great cultural distances, which have an impact on performance by requiring management teams to invest more time and money in cultural adaptation. However, the detrimental impact of cultural variations on performance is more constrained given that business performance is influenced by a range of factors (Morschett et al., 2010; Tihanyi et al.,

2005). Secondly, MNCs may have greater market entry barriers in countries with large cultural differences. Thirdly, a centralised business strategy in an unfamiliar foreign market can improve efficiency and performance. Fourthly, there are some limitations in this study. Future research can further enrich the results by adopting a multi-firm sample to improve the generality of the results (Jick, 1979), adding more financial and non-financial indicators to improve the robustness of the study, and exploring more types of centralisation decisions (Richard et al., 2009).

In conclusion, this study provides important insights for MNCs' strategic choices. First, cultural differences are inevitable barriers to international operations, and firms need to invest in adapting to different cultures. Second, given the risks of market entry due to cultural differences, firms can adopt a relatively decentralised and gradual strategy to explore new markets. Finally, a moderate degree of centralisation can help firms control costs, exploit scale effects, and thus improve performance.

Acknowledgement

This study is self-funded.

Conflict of interest

The authors confirm that there is no conflict of interest involve with any parties in this research study.

REFERENCES

- [1] Alexander, N. (1990): Retailers and international markets: motives for expansion. – *International Marketing Review* 7(4): 75-93.
- [2] Barjaktarovic, L., Jecmenica, D. (2011): Six sigma concept. – *Acta Technica Corviniensis-Bulletin of Engineering* 4(4): 103-107.
- [3] Barkema, H.G., Bell, J.H., Pennings, J.M. (1996): Foreign entry, cultural barriers, and learning. – *Strategic Management Journal* 17(2): 151-166.
- [4] Gaye, A., Marcon, Y., Isaeva, J., LaFlamme, P., Turner, A., Jones, E. M., Burton, P.R. (2014): DataSHIELD: taking the analysis to the data, not the data to the analysis. – *International Journal of Epidemiology* 43(6): 1929-1944.
- [5] Gielens, K., Dekimpe, M.G. (2001): Do international entry decisions of retail chains matter in the long run? – *International Journal of Research in Marketing* 18(3): 235-259.
- [6] Gillespie, K., Swan, K.S: (2021): *Global marketing*. – Routledge 570p.
- [7] Goerzen, A., Asmussen, C.G., Nielsen, B.B. (2013): Global cities and multinational enterprise location strategy. – *Journal of International Business Studies* 44: 427-450.
- [8] Hofstede, G.J. (2015): Culture's causes: the next challenge. – *Cross Cultural Management* 22(4): 545-569.
- [9] Hofstede, G. (2011): Dimensionalizing cultures: The Hofstede model in context. – *Online Readings in Psychology and Culture* 2(1): 26p.
- [10] Hofstede, G. (1980): Culture and organizations. – *International Studies of Management & Organization* 10(4): 15-41.
- [11] Jick, T.D. (1979): Mixing qualitative and quantitative methods: Triangulation in action. – *Administrative Science Quarterly* 24(4): 602-611.
- [12] Johnson-Laird, P.N. (1999): Deductive reasoning. – *Annual Review of Psychology* 50(1): 109-135.

- [13] Kang, Y., Jiang, F. (2012): FDI location choice of Chinese multinationals in East and Southeast Asia: Traditional economic factors and institutional perspective. – *Journal of World Business* 47(1): 45-53.
- [14] Kogut, B., Singh, H. (1988): The effect of national culture on the choice of entry mode. – *Journal of International Business Studies* 19: 411-432.
- [15] Leung, K., Bhagat, R.S., Buchan, N.R., Erez, M., Gibson, C.B. (2005): Culture and international business: Recent advances and their implications for future research. – *Journal of International Business Studies* 36: 357-378.
- [16] Luo, Y. (2005): How does globalization affect corporate governance and accountability? A perspective from MNEs. – *Journal of International Management* 11(1): 19-41.
- [17] Luo, Y., Shenkar, O. (2017): The multinational corporation as a multilingual community: Language and organization in a global context. – *Language in International Business: Developing a Field* 33p.
- [18] McLeod, P.L., Lobel, S.A., Cox Jr, T.H. (1996): Ethnic diversity and creativity in small groups. – *Small Group Research* 27(2): 248-264.
- [19] McSweeney, B. (2002): Hofstede's model of national cultural differences and their consequences: A triumph of faith-a failure of analysis. – *Human Relations* 55(1): 89-118.
- [20] Moran, R.T., Harris, P.R., Moran, S. (2010): *Managing cultural differences*. – Routledge 586p.
- [21] Morosini, P., Shane, S., Singh, H. (1998): National cultural distance and cross-border acquisition performance. – *Journal of International Business Studies* 29: 137-158.
- [22] Morschett, D., Schramm-Klein, H., Swoboda, B. (2010): Decades of research on market entry modes: What do we really know about external antecedents of entry mode choice? - *Journal of International Management* 16(1): 60-77.
- [23] Noble, C.H., Sinha, R.K., Kumar, A. (2002): Market orientation and alternative strategic orientations: A longitudinal assessment of performance implications. – *Journal of Marketing* 66(4): 25-39.
- [24] Nurlaela, S., Mursito, B., Kustiyah, E., Istiqomah, I., Hartono, S. (2019): Asset turnover, capital structure and financial performance consumption industry company in indonesia stock exchange. – *International Journal of Economics and Financial Issues* 9(3): 297-301.
- [25] Pankaj, G. (2001): Distance still matters: the hard reality of global expansion. – *Harvard Business Review* 79(8): 137-147.
- [26] Rhoades, S.A. (1993): The herfindahl-hirschman index. – *Federal Reserve Bulletin* 79(3): 2p.
- [27] Richard, P.J., Devinney, T.M., Yip, G.S., Johnson, G. (2009): Measuring organizational performance: Towards methodological best practice. – *Journal of Management* 35(3): 718-804.
- [28] Rosenzweig, P.M., Singh, J.V. (1991): Organizational environments and the multinational enterprise. – *Academy of Management Review* 16(2): 340-361.
- [29] Roth, K., O'donnell, S. (1996): Foreign subsidiary compensation strategy: An agency theory perspective. – *Academy of Management Journal* 39(3): 678-703.
- [30] Santangelo, G.D., Meyer, K.E. (2011): Extending the internationalization process model: Increases and decreases of MNE commitment in emerging economies. – *Journal of International Business Studies* 42: 894-909.
- [31] Tihanyi, L., Griffith, D.A., Russell, C.J. (2005): The effect of cultural distance on entry mode choice, international diversification, and MNE performance: A meta-analysis. – *Journal of International Business Studies* 36: 270-283.
- [32] Weber, J.M., De Villebonne, J.C. (2002): Differences in purchase behavior between France and the USA: the cosmetic industry. – *Journal of Fashion Marketing and Management: An International Journal* 6(4): 396-407.