

great service, and good quality. To deliver on this proposition, The Home Depot relies on a variety of U.S.-specific institutions. It depends on U.S. highways and logistical management systems to minimize the amount of inventory it has to carry in its large, warehouse-style stores. It relies on employee stock ownership to motivate shop-level workers to offer top-notch service. And its value proposition takes advantage of the fact that high labor costs in the United States encourage homeowners to engage in do-it-yourself projects.

The absence of these contextual features in emerging markets challenged the company's ability to replicate its business model. In emerging markets with poorly developed capital markets, for example, the company might not have been able to use employee stock ownership as a compensation tool. Similarly, in markets with poorly developed physical infrastructure, The Home Depot might have had difficulty using its inventory management systems—a core competitive advantage in North American markets. In markets with relatively low labor costs, the target customer might not have been the homeowner but rather contractors serving as intermediaries between the store and the homeowner, requiring a different approach to marketing and other business operations.

The company made a tentative foray into emerging markets by setting up two stores in Chile in 1998 and another in Argentina in 2000. In 2001, however, the company sold those operations for a net loss of \$14 million. At the time, the company's management emphasized that most of The Home Depot's future growth was likely to come from North America. After exiting the markets, The Home Depot switched from a greenfield strategy to an acquisition-led approach—discovering the value of collaboration after its failed initial attempts to compete alone. In 2001, The Home Depot entered Mexico by buying a home improvement retailer, Total Home, and the next year it acquired Del Norte, another small chain. By 2004, the company had forty-two stores in Mexico.

China presented tremendous opportunities for companies such as The Home Depot because of the country's fast-growing home improvement market. Perhaps chastened by its experience in Chile and Argentina, The

Home Depot took its time evaluating options to enter China. "We're going to make the prudent decision," said one company executive in 2006. "We're going to make sure we have the right business model."⁵⁶

In addition to the general contextual challenges, The Home Depot would face other institutional voids in China. Housing in the country was sold as concrete shells, requiring more extensive home improvement than most of the do-it-yourself projects its U.S. customers pursued. B&Q of the United Kingdom and other home improvement stores in China were staffed with workers to install packages.⁵⁷ Replicating this model would have been difficult for The Home Depot in light of labor market institutional voids. In 2006, The Home Depot acquired Home Way, a chain in China that had replicated The Home Depot's model, even copying the company's familiar orange aprons.⁵⁸ Whether The Home Depot can catch up to B&Q, which entered China early and adapted its model aggressively, remains to be seen. The Home Depot's approach to emerging markets after its early stumbles illustrates that waiting is an option for developed market-based multinationals still looking for the right approach to match their business models and capabilities to the contextual challenges of emerging markets (see table 4-9).

Enter, Wait, or Exit? Tetra Pak in Argentina

In part because of institutional voids, such as regulatory voids and lack of information on the risk exposures of companies and of the broader

TABLE 4-9

The Home Depot in emerging markets: Responding to institutional voids

Spotting void question	Specific void	Response
How strong are the logistics and transportation infrastructures? Have global logistics companies set up local operations?	Underdeveloped hard and soft logistics and distribution infrastructure	Early: Waited: Emphasized opportunities elsewhere because unable to replicate Later: Collaborated: Shifted strategy to grow by acquisition