ORGANIZATIONAL IDENTITY, GROWTH AND CAPABILITY DEVELOPMENT: SPLICING, TRANSFERENCE, AND ENHANCED IMITATION IN TESCO’S US MARKET ENTRY

MICHELLE LOWE
UNIVERSITY OF SURREY
School of Management
Guildford, Surrey
GU2 7XH
United Kingdom
m.lowe@surrey.ac.uk
+44 1483 683 089

GERARD GEORGE
IMPERIAL COLLEGE LONDON
Business School
South Kensington, SW7 2AZ
United Kingdom
g.george@imperial.ac.uk
+44 20 7594 1876
Within the dynamic capabilities literature, how organizational capabilities emerge, adapt and survive is a topic of great interest (Agarwal and Helfat, 2009; Eisenhardt & Martin, 2000; Zahra, Sapienza and Davidsson, 2006). Capabilities are inter-dependent set of routines that allows an organization to reasonably and reliably achieve outcomes (Winter, 2000). In particular, scholars have emphasized the underlying routines as the fundamental mechanism by which capabilities retain their structural coherence, i.e. the capacity of capabilities to represent meaningful frameworks for interdependence in organizational tasks. This coherence is an outcome of cumulative subsets of routines such that they confer on the organization a potential to perform certain tasks effectively and efficiently. Coherence arises from routines being confined to specific organizational contexts. However, a change in context shifts the underlying assumptions on the interdependence of routines and is likely to destroy structural coherence. There is limited evidence of capabilities associated with new market entry (Bingham, 2009; Helfat & Lieberman, 2002), but little is known about how capabilities, and structural coherence emerge when transposed to new contexts.

Coherence of a firm’s capabilities is likely to be embedded with its organizational identity. Organizational identity represents how insiders and external constituents perceive an organization and its activities. The continuity of identity provides stability within the confines of the organization and also in terms of its external image (Hannan & Freeman, 1984). During market entry, loss in structural coherence of capabilities also changes a firm’s identity. Firms then have two options; either to reconfigure routines in the new market context to reflect capabilities that reinforce the organization’s identity, or to combine variants of existing identity with new elements from the external context which implies reconfiguring capabilities and developing entirely new ones consistent with the new market (Bingham, 2009; Keil, Autio and George, 2008; Sapienza et al., 2006). In this study, we adopt a grounded theory perspective to examine how a global retail firm expanding into the US
market responds to the loss of structural coherence by reconfiguring its core capabilities and organizational identity.

This paper draws on a detailed and in-depth three year longitudinal study of Tesco plc, the UK’s largest retailer as it entered west coast US markets. The study is enriched by its privileged access to Board and Director level executives, historic archival data, and participant observation within the firm as it rolled out its US subsidiary, Fresh & Easy, into California, Arizona and Nevada, commencing in November 2007. In order to better understand capability development and organizational identity, we revert to Tesco’s historic roots. This allows us to track the co-dependence of identity and capability and the fundamental shifts that occur in these when entering a new international market.

In so doing we make three contributions to the literature. First, we unpack specific mechanisms by which structural coherence and identity co-evolve when fundamental shifts in market context occur. Tripsas (2009) explains how technological capabilities influence organizational identity in small and medium-sized enterprises. In this study, we further extend this rationale to accommodate large, older firms with substantial legacy effects which can change organizational identity and their attendant capabilities when entering international markets. Particularly, we explain how structural coherence of capabilities and organizational identity are interwoven constructs that have received less attention in organizational theory and strategy.

Second, we identify detailed processes by which a large organization builds capabilities in a new market. Specifically, we uncover three key mechanisms by which new capabilities are formed: transference, splicing, and enhanced imitation. By transference, we refer to the replication of inter-dependent tasks and capabilities in multiple environments without local modification. Splicing is the creation of a new capability through unique recombination of extant capability sets drawn from multiple locations. Enhanced imitation
refers to the creation of unique capability via the import of key strategic influences from elsewhere in the industry ecosystem. Together, these three mechanisms drive maintenance and adaptation of organizational identity in the new market.

Third, we provide case study evidence to the literature on contemporary practices in globalization of multinational firms (Whitley et al, 2001), especially in global retailing (Coe and Hess, 2005; Coe and Wrigley, 2007; 2009; Currah and Wrigley, 2004; Dawson et al, 2007; Lowe and Wrigley, 2010). This latter literature examines various ways in which multinational retail firms adapt to host markets via the import of practices from elsewhere in the global retail system as well as via the incorporation of locally specific market skills (Wrigley et al, 2005; Coe and Wrigley, 2007). However, with some important exceptions (Coe and Lee, 2006; Durand and Wrigley, 2009; Wrigley, 2000) little emphasis is placed on the co-evolution of identity and capability, or on the strategic importance of historical antecedents in order to fully comprehend a firm’s position within the global marketplace. In addition, the study adds to the capabilities literature as it pertains to new market entry. While there have been some theoretical contributions on how capabilities influence entry and survival (e.g., Helfat & Lieberman, 2002; Sapienza et al., 2006), limited empirical evidence exists that substantiates the influence of capabilities on a firm’s performance in new, international markets.

MARKET ENTRY AND STRUCTURAL COHERENCE

Capability Development in Market Entry

Entry into international markets, whether as a new venture or an established firm, is a process fraught with risk and threatens firm survival. Yet, if firms are successful with entry, it is likely that they will grow faster and survive longer than those that do not enter new markets (Sapienza et al., 2006). There are two fundamental assumptions that are challenged with firm entry. First, new markets represent new contexts and novel ways of doing business,
which may require the firm to develop entirely new capabilities. Helfat and Lieberman (2002) note that market entry creates resource and capability gaps that, in turn, will influence the success of market entry. Second, changes in context represent change in structural coherence of capabilities, i.e. the underlying assumption of inter-dependence and inter-operability of capabilities is violated, which makes them redundant or less effective. Given that capabilities for market entry influence success and survival, the processes by which firms manage market entry become important.

Inter-dependence between organizational actors in routines assumes that each actor is aware of their respective roles, functions, and tasks (Winter, 2003). Modularity in tasks and inter-operability of routines in geographically dispersed locations assume that such activities are standardized and can be decomposed into operant tasks that are easily understood and assimilated by employees (Puranam et al., 2009). New market entry is likely to challenge these standardization assumptions, where the new context likely creates capability gaps that serve as sources of conflict among employees. A strategy that is often cited for geographic expansion in the retail sector is a replication strategy (Winter and Szukanski, 2001) – a strategy that entails replicating operating procedures, structures, processes, and support infrastructure in the new geographic location. This replication strategy addresses most firms expanding within regions where contexts do not change drastically such that their fundamental assumptions are violated; moreover such expansion focuses on growth within the US of a domestic firm. Foreign firms expanding into the US cannot rely on replication alone, as capability gaps exist. Instead, they may bridge these gaps through processes of experimenting and internally developing capabilities.

On the other hand, creating capabilities that compete or is in discord with a firm’s existing capabilities may create resistance, especially when these involve new practices or depart from established norms and values (Oliver, 1997). In a study of telecommunications
firms, Capron and Mitchell (2009) find that organizations are more likely to adopt internal capability development when it fits current internal, social context and opt for external sourcing of capabilities when there is disconnect with existing social context, norms and values. However, this capability gap and conflict argument presumes that organizations that are experimenting with new structures and new operating models would favor external sourcing of capabilities, which may not be the case.

In the case of Tesco examined in this paper, its expansion is both geographic (US entry) as well as organizational (change in operational format, market positioning, and supply chain governance) in scope. Though established firms have a broad resource base, changes in geographic and organizational scope will require the development of new capabilities. Although an emerging literature points to conditions for internal development or external sourcing of capabilities (e.g., Capron and Mitchell, 2009; Puranam, Singh and Chaudhuri, 2009), the contingencies and processes by which capability development takes shape in new market entry remains relatively unexplored. We aim to address this gap by studying the micro-processes by which firms develop new capabilities when entering new markets.

**Structural Coherence and Organizational Identity**

Organizational identity broadly refers to members’ consensual understanding of ‘who we are as an organization’ (Nag et al, 2007:824). The concept of organizational identity has received much attention, but this is generally related to the various ways in which the internal environment of the firm is configured (Brickson, 2007; Corley and Gioia, 2004; Nag et al, 2007; Ravasi and Schultz 2006; Whetten, 2006). Extending this framework, Livengood and Reger (2010) examine the organization’s external environment and the various ways in which this context influences identity. In particular, they focus on the construction of identity by firm executives and, by extension, the interplay between this identity construction and actions within firms. These authors build on ‘identity domain’ as defining features, distinctive
elements, and enduring characteristics of the organization as a whole. Identity domains are manifest often as the largest or most economically important market, geographically focussed e.g. a company’s headquarters or flagship location, or key products and services. By adopting identity domain as an anchor, Livengood and Reger (2010) suggest that managers conceive and enact strategies that further enforce their identity.

During new market entry, the underlying organizational identity is likely to change. International joint ventures or partnerships make issues of social identity associated with national, organizational, and professional affiliations more pertinent (Alvesson and Wilmott, 2002; Li and Hambrick, 2005). Whereas the literature on competitive dynamics has focused on how firms in the same industry compete and react differently (Chen, Smith and Grimm, 1992), changes in markets where firms compete are likely to shift the underlying identity domains of the firm. In a field-based case study of the life history of a digital photography company, Tripsas (2009) found that technological opportunities challenged the firm’s pre-existing identity and pushed the firm into a phase of identity ambiguity, which was resolved when the firm converged on a new identity over a decade. For Tesco, entering the US market was a widely publicized affair because it involved taking the largest UK retailer to the world’s largest and most fiercely competitive retail market. Here, a high visibility strategy challenges managers’ perceptions and the ability of the firm to maintain a cogent identity.

Firm strategies reinforce organizational identity as a basis for sustained competitive advantage (Fiol, 1991). Shifts in identity may disrupt structural coherence associated with organizational capabilities and decrease the firm’s success in new market entry. During phases of identity change and ambiguity, managers’ actions and strategies are likely to alter and actions can be frustrated by the lack of clarity (Tripsas, 2009). In addition, new market entry can create such discord in organizational identity, especially when new practices are introduced (Oliver, 1997). Changes to underlying identity and the ambiguity surrounding
strategic action imply that managers are constrained in developing and deploying capabilities in the new environment. Because structural coherence arises from routines being confined to specific organizational contexts and represent meaningful frameworks for interdependence, ambiguity in identity impedes the firm’s capability to effectively and reliably achieve goals.

Taken together, new market entry creates two distinct problems for the organization. First, change in context destroys structural coherence in capabilities as underlying assumptions of inter-dependence and inter-operability of routines become less clear. Second, entry into new markets serves to disrupt organizational identity, especially if such entry is perceived as critical by the organization’s stakeholders. During phases of identity ambiguity, structural coherence is further eroded as manager’s are less certain of the organizational direction and strategies to reinforce their identity are misaligned. To understand how organizations potentially increase structural coherence through managing their organizational identity and develop new capabilities, we examine Tesco’s entry into the US market.

DATA AND METHOD

We conducted a detailed study of retail innovation more broadly, with a fine-grained analysis of Tesco’s market entry into US markets. Taking a grounded theory perspective (Glaser and Strauss, 1967), our study is inductive, field-based and allows us to ‘delve deeply into the organisation and thus develop a rich understanding of the evolution of identity’ (Tripsas, 2009: 444). Following an approach similar to Eisenhardt (1989: 532), a roadmap reveals the dynamics present within single settings.

In that context, Tables 1 and 2, summarise Tesco’s eight decade history, and the evolution of its core capabilities. Figures 1 and 2 illustrate its expanding domestic and then increasingly global footprint. Significantly, we note that Tesco’s evolution both as a domestic market operator and, more recently, as a major multinational has been far from linear. The
firms have experienced important phases of retrenchment – both in its home market growth and, notably, in its early forays during the 1980s/early 1990s into markets outside the UK.

Insert Tables 1 and 2 Here

For example Tesco’s initial expansion into the Irish Republic shown in the Figure 1 (1983 map) was short-lived, whilst a similar acquisition-based expansion into northern France in the early 1990s ended in market exit just three years later. Additionally, during the 1990s the firm experienced a major restructuring of its corporate identity. Essentially that involved moving away from its ‘pile it high, sell it cheap’ discounter roots and repositioning itself a mass-market multi-format supermarket operator serving all socio-economic groups, all regions, all geographic areas – with a segmented ‘retailer brand’ range (‘Value’ to ‘Finest’) to meet the differentiated demands of its customers. The reconstitution of its corporate identity took place simultaneously with its initial wrestling of UK market leadership during the mid 1990s from the long-standing previous leader Sainsbury, Arguably, it was then critical to the accelerating strengthening of Tesco’s UK market leadership over the following decade to a point in the mid 2000s where it had twice the market share of its closest rivals.

Insert Figures 1 and 2 Here

Moreover it was an identity reconstitution that was continuously refined as Tesco first cautiously restarted its international expansion with a move into the emerging consumer markets of post-communist Central/Eastern Europe in the mid-1990s (see Fig 1 1998 map), and then, more aggressively, into East Asia following the Asian economic crisis of 1997/98. Over the next decade, as Tesco became increasingly adapt and successful as an international operator, so its successive entries into 12 markets outside the UK and the shift in the balance
of its global operating space to a point in 2009 where 65% of that space was outside its home market, had significant and continuous effects on its organizational identity.

Learning to manage increasingly large and dispersed store and sourcing networks across countries with very different institutional, cultural and regulatory environments continuously and comprehensively modified Tesco’s competencies and deeply affected its organizational structures. As the firm’s belief in its abilities as a multinational operator grew, and as it rapidly expanded to become one of the world’s top five retailers, its corporate identity became a source of competitive advantage. The high-risk nature of Tesco’s entry into the US, and which exposed the firm to more hostile financial-market scrutiny than it had received at any point during its previous decade of international expansion, is of interest analytically because of its potential to disrupt the coherence of the organizational identity which Tesco had so carefully and successfully nurtured over that decade.

Method

The study is built on a participative form of research (Van de Ven, 2007) in which we engaged with the firm and obtained the perspectives of the firm’s managers as key stakeholders. In this way, it has some of the characteristics of what is described as ‘engaged scholarship’. Obtaining these perspectives involved in-depth semi-structured interviews in both the US and the UK with 16 key participants in the firm’s market entry strategy, conducted in the manner which Clark (1998) refers to as ‘close dialogue’, relying upon the intimacy or closeness of researchers to industry respondents, a level of personal commitment quite at odds with conventional notions of scientific disassociation and objectivity (Clark, 1998:73). The material gathered in these interviews was then triangulated with multiple insights and documentation obtained from investment bank analysts, company archives, national and local media sources, the ‘voice’ of the local community expressed via websites, blogs, retail industry consultants with immediate knowledge of Tesco’s US venture, leading
US-based academics acknowledged as experts on the industry, and dialog with managers of other leading food retailers.

Unlike Clark (2007: 192) who prefers only ‘rarely to identify respondents or to quote their opinions’, we prefer where possible to give ‘voice’ – in an anonymised fashion – to our interviewees and to utilize what Minzberg (1979) refers to as ‘the richness that comes from anecdote’ in order to construct our grounded theory. However, although our corporate interviewees were aware that their firm had permitted us an unusual level of access given the high risk nature of the market entry Tesco was engaged, a few managers exercised their right to remain unquoted. Our paper conscientiously respects that right and blends material from interviewees who gave their consent with publicly available statements of senior executives.

**Research setting, interviews and observation**

Our research involved an in-depth, three year longitudinal case study (November 2007 to August 2010) of Tesco as it entered western US markets. Beginning with simultaneous store openings in Los Angeles and Las Vegas as *Fresh & Easy Neighborhood Markets*, Tesco rolled out a chain of 100 stores (approximately half in southern California and half in Phoenix and Las Vegas) within its first year of operation and by August 2010 had 159 stores in operation. The firm is headquartered in El Segundo, Los Angeles (close to Manhattan Beach), and operates a distribution/food preparation centre with capacity to supply 500 stores on a former US Air Force base at Riverside County east of Los Angeles.

Data covering the entire lifespan of the Fresh & Easy operation were gathered from four main sources. First, semi-structured interviews’ carried out from the Autumn of 2007 onwards, in both the US and the UK. Several of these interviews were with a group of Tesco managers who had not only been central in the development of the US market entry and the strategic positioning of the new brand, but who had also been closely involved in other major international market entries in Asia and Central/Eastern Europe and were therefore able to
discuss the US experiment in the light of sequential development of the firm’s international reach over a 15 year period since the mid 1990s. Indeed, a significant feature of Tesco’s organizational identity would seem to relate to its retention of key executives for substantial parts of their careers, such that many of the managers interviewed had periods of employment with the company spanning over 25-30 years and across a wide range of the firm’s operational divisions. Each interview conducted lasted at least two hours and these ‘formal’ discussions were later followed up via email for clarification of the key points. Interviews that were taped were transcribed and in cases where this was not permitted by the interviewee, detailed notes were taken and these expanded immediately after the meeting.

Second, we carried out four periods of intensive participant observation with the firm undertaken in 2008, 2009, and 2010 including visits to the firm’s HQ in both the US and the UK, tours of Fresh and Easy stores and involvement in day to day operations with firm executives, intensive in-depth participant observation in a variety of store settings in Los Angeles, Phoenix, and San Diego as well as participation in store openings. Further information was collected via the simultaneous study of major US food retailers and, in particular, via comparison of the Tesco Fresh & Easy format with an experimental Wal-Mart small-store format, launched in Phoenix, in what appeared to be direct head to head competition with Tesco, in the Fall of 2008.

Third, we examined archival sources including publicly available documents and press reports as well as analyst and retail industry commentary made available to the researchers via close collaboration with retail industry analysts and consultants. Detailed field notes (often including photographs and other documentary evidence) were taken in all research settings, and were supplemented with informal discussions with both employees and customers. Finally, the material outlined above was further triangulated with insights obtained from Tesco ‘insiders’ with whom we had developed a relationship of trust via a
series of past research projects which had involved the close collaboration of the firm and its employees. Like Tripsas (2009), we found this combination of insider and outsider status provided a unique perspective, and that the constructive linking of these two modes of enquiry was particularly fruitful as our research progressed.

Data analysis

Analysis of interviews followed a ‘grounded theory’ approach whereby the transcriptions and field notes were examined for emergent themes. In order to scrutinize the robustness of the developing theories, we discussed and iterated themes, and then tabulated and triangulated these themes with a timeline capturing the history of the firm. There were at least four iterations until we could provide a stable and valid account using theoretical concepts described above. These concepts were then ‘tested’ via further discussions and reading of the developing framework with a key contributor to the retail globalisation literature as well as via discussions of emerging themes with a small number of key research participants. Further, during the process of writing this paper, two teaching cases were written – one on the globalisation of Tesco and one on aspects on innovation at Fresh & Easy, and these cases were both shared with research participants in order to check for accuracy and inappropriate representations. Our findings provided a systematic method to develop propositions on the relationship between capability development, organizational identity, and firm growth.

THEORY DEVELOPMENT

Transference and Growth

To develop capabilities in a newly entered market, firms are required to re-build their capabilities. Winter and Szulanski (2001) found that many retailers rely on replication as a strategy to grow their footprint in new markets. Though their study was confined to domestic expansion, the underlying elements of codification and replication of routines formed a
cornerstone of domestic market growth. Similarly, our investigation revealed replication processes involving two types of capability transference. The first form of transference was the firm’s ‘core’ capabilities (Prahalad and Hamel, 1990) developed over a decade of intense home and international expansion in the form of a codified set of systems. The second form of transference was through ‘partner’ or ‘co-dependent’ capabilities (Gulati and Sytch, 2007; Kale and Singh, 2007) which the firm had developed through deep relationships with strategic growth partners in the logistics and food processing sectors.

In the context of the first of these two types of capability transference, a process of top-down transfer of competencies involving the transmission of codified knowledge relating to back office and retail processes, systems and operating capabilities - previously referred to as ‘Tesco in a Box’ and now referred to as the *Tesco Operating Model* - was rolled out comprehensively by the firm during the US market entry. Initially implemented in 2004,

‘Tesco in a Box’ was essentially a resource to support Tesco’s rapidly growing international business, initially, comprising a standard set of IT systems covering the firm’s ‘standard approach to implementing supply chain management, warehouse management, product price management, point of sale, financials, all the core building blocks’ (Tesco Director of Group Technology Architecture, quoted in Shifrin, 2008).

In turn, the process was supported by ‘knowledge activists’, highly mobile managers working out of Tesco’s International Support Office, whose role was to span boundaries within the firm and to supplement the transfer of codified knowledge contained in the ‘Operating Model’ with hands-on transmission of tacit knowledge, whilst also promoting bottom-up capture and transfer of knowledge from within the international subsidiaries. The Operating Model has increasingly been viewed as vital in supporting Tesco’s international market entries and expansions

‘As we grow, if a country needs the capability they put their hand into the box and say ‘I’ll have one of those, rather than going out and searching [for example] for an enterprise resource planning system…Over the last two years that’s translated into not only a set of IT systems but also a set of business processes. So its absolutely an end-to-end set of systems…It describes planning and building
stores, deciding on markets, selecting products, getting through the supply chain to selling to the customers in the shops’ (Tesco Director of Group Technology & Architecture, quoted in Shifrin, 2008)

Significantly, the US market entry provided an important first opportunity to utilize the full capabilities of the Operating Model prior to its planned migration across the whole firm during 2010/11. As Corporate Interviewee B noted, the US provided:

‘the first place where we pulled the Operating Model together… [the US business] was all so new so it didn’t have a legacy so it had no legacy systems’

In the context of the second type of capability transference – ‘partner’ or ‘co-dependent’ capabilities - we note several examples surrounding the 675,000 sq ft distribution/food preparation centre Tesco constructed in Riverside to serve its store network, First, the $25 million five-year contract signed with Polymer Logistics, a logistics supply chain specialist used by Tesco in the UK, to operationalize the short lead time, efficient and dependable logistics system which was critical to the Fresh & Easy offer. Essentially that system involved delivery to stores of pre-loaded, shelf-ready product trays, designed to be reusable and tagged with computer chips so that supply chain cycle times can be tracked, analyzed and optimized. Second, in relation to the separate 80,000 sq ft food preparation facility that Tesco constructed at its Riverside Distribution Center, we note that it was assisted by the simultaneous move to California of two of its leading British Suppliers – Natures Way Foods and 2 Sisters Food Group. Nature’s Way set up a US company Wild Rocket Foods and invested $100 million in a processing plant adjacent to the DC, whilst 2 Sisters invested $70 million in a similarly, located facility. In turn, Nature’s Way worked with Jacobs Farm/Del Cabo an organic producer importing from Mexico, and Betteravia Farms a California/Arizona grower to supply prepared salads, vegetables fruit and juices, whilst 2 Sisters worked with APPA Fine Foods to supply poultry, meat and seafood. Together, the US operations established by these firms fed into the Distribution
Centre both shelf-ready packaged produce and also 40% of the chopped and prepared meat, poultry, fruit and vegetable ingredients used in the food preparation facility.

Although the unexpectedly deep recession in the western US states which followed the global financial crisis of 2007/8, and which slowed the planned pace of expansion of the Fresh & Easy store network, resulted in 2010 in Tesco having to buy out the investment of these ‘follower’ UK suppliers, the ‘follower-supplier’ relationships Tesco was involved in during the first three years of its US market entry are of considerable conceptual interest. Although similar examples have been discussed in engineering and high technology industries such as automotives or electronics that require close coordination, co-design, and co-production (cf. Harland, Lamming and Cousins, 1999), transference of co-supplier dependent capabilities are largely undocumented in the global retail industry.

Studies in the routinization of capabilities highlight interdependence among actors and tasks as a key reason for their holistic functioning and capacity to execute (Feldman, 2000). This inter-dependence within capabilities is likely to function more effectively if constituent tasks are codified, modular, and/or can be assigned or delegated (Schilling, 2000; Puranam, Singh and Zollo, 2006). In order to achieve growth in foreign markets, attributes of codifiability assume greater importance – not least as the context in which capabilities were originally formed may differ, and underlying assumptions of inter-operability can vary, causing disruptions in the underlying routines. Systemic transference of core and co-dependent capabilities enhanced the likelihood of achieving higher growth rates in foreign markets. Hence, we posit that:

**Proposition 1:** Systemic transference of core and co-dependent capabilities from home- to foreign- market through codification and modularity will be positively related to growth in the foreign market.
Transference, Growth, and Identity Maintenance

The by-product of Tesco’s transference of its codified core capabilities is a standardization and common shared understanding among employees of how the firm performs a task and how these tasks are inter-related, complementary, and reinforce each other. The Operating Model facilitates a shared understanding of ‘what is done’ and ‘how things are done’, helps create a shared identity among employees of Tesco’s values and capabilities, and embodies how the firm treats customers and employees. That is to say, it helps develop and maintain a shared, common identity of the firm and its operations which, in turn, helps to facilitate growth. Expressed in a different way, whereas the transference of capabilities facilitates growth, mechanisms to reinforce organizational identity through shared understanding of operations and activities also enhance growth.

Entry into foreign markets represents a non-trivial challenge for an organization, as it becomes exposed to localization and customization needs to meet demands of the consumer, and this is particularly the case in retail globalization where achieving what has been termed as ‘territorial embeddedness’ has increasingly been seen as vital to competitive success in international markets (Wrigley et al, 2005). Such customization may require a firm to modify its organizational identity - loosely defined as its ‘self-view’ (Albert, Ashforth and Dutton, 2000; Pratt 2006).- and that modification can manifest itself at various levels. It can involve altering the set of activities or addressing conflicting pressures that originate from differing cultures. Taken further, it may require a fundamental reassessment of the firm’s capabilities, values, and priorities.

Organizational identity modification, in turn, impacts both the manner in which the firm operates and the mechanisms that they put into place (or rely on) to do so. For instance Feldman and Pentland (2003) address not only the interdependence of tasks, but also a larger understanding of organizational goals and how they can be achieved. The ‘Tesco-in-a-Box’
Operating Model helps preserve organizational identity, not simply by replicating capabilities, but providing greater shared meaning in how and what gets done. This identity maintenance mechanism further enhances employee and supplier awareness of the firm’s activities, allowing the firm to more easily enter new markets and execute its Operating Model, thereby further increasing the prospects for growth. Therefore, we posit that:

**Proposition 2:** The relationship between systemic transference of core and co-dependent capabilities will be more positively related to growth in foreign markets when identity maintenance is high.

**Capability Splicing and Growth**

Entering new markets also requires changes to existing capabilities. Different approaches are seen in the literature where firms develop capabilities from scratch (e.g., Helfat and Lieberman 2002) or transfer collectively (e.g., Zhao and Anand 2009) or adapt existing capabilities to new conditions (e.g., Autio, George and Alexy 2011). In our case study, we found that Tesco adopted a strategy of capability ‘splicing’. Akin to the genetic engineering concept of adding or deleting base pairs in a gene where the newly spliced gene has a newly developed functionality, Tesco took core elements of its domestic/international market capabilities and then *recombined* these with variants adapted from best-practice local-firm capabilities, making the recombined capability more effective than either its home market capability or host-market competitor capabilities. This model of splicing differs from adaptation by evolving routines, instead the core capabilities and their underlying routines remain intact, and the peripheral capabilities are drawn directly from the foreign market.

For example, to support both its food preparation facility at Riverside and supply products directly into its Distribution Centre, Tesco actively engaged in building a network of preferred supplier relationships with small and medium sized US suppliers. Many examples of innovative specialist small suppliers who became part of Tesco’s network and subsequently scaled-up their operations have been documented – examples range from a
small local family-based manufacturer of tortillas without additives or preservatives in Los Angeles, to an artisan coffee supplier from San Diego deeply committed to ethical sourcing. A particularly illuminating example is provided by a Phoenix-based ice cream manufacturer Berto’s, which became the sole supplier of ice cream and sorbet to Fresh & Easy. Describing the process of becoming a preferred supplier, Berto’s CEO paints a picture of adjusting to Tesco’s home-market developed quality control capabilities – a regime significantly more exacting than the US supplier had previously operated within:

‘We had really high quality standards, but when Fresh & Easy came into our life they took us to a whole new level of expectations…they had auditors and food scientists here making sure that what we were going to send them was what we said it was…I supplied information about our products to their technical library [and] I even spent time working at their secret [prototype] store in California’

(CEO Berto’s quoted in Creno, 2008)

Tesco spliced the core competencies it had derived from its extensive home and international market experience of the governance of preferred supplier systems with critical local market supplier capabilities vital to its ability to compete successfully in local-market cultures of consumption. Preferred supplier systems provided Tesco with a critical ‘mechanism for vertical co-ordination’ (Humphrey, 2007), helping to reduce the uncertainty and risks associated with a small- and medium-size supplier oriented supply chain in a context where, the ability to ensure quality control and visibility along the chain was strategically central to Tesco in terms of being able to deliver the core brand propositions of the Fresh & Easy chain. That is to say, capability splicing and the recombination of capabilities that involved was vital to Tesco’s ability to deliver the type of supply chain central to the realization of Tesco’s vision of a US subsidiary served by supply networks with exceptional levels of quality control and visibility and with the capacity to rapidly and consistently deliver innovatory products – notably chilled prepared ready meals – which the
US food manufacturing industry had traditionally been poor at supplying. Therefore, we posit that:

*Proposition 3: Splicing of core capabilities with host market capabilities will be positively related to growth in the foreign market.*

**Splicing, Growth, and Identity Adaptation**

Whereas recombining capabilities via splicing from external sources was a vital mode of growth for Tesco, it is also important to evaluate how these capabilities altered Tesco’s identity as a retailer. Though there is some research on how capability transformations can concomitantly alter a firm’s strategy and structure (e.g., Agarwal and Helfat, 2009; Autio et al., 2011), very little work has examined how such changes might alter the firm’s organizational identity. Here, we suggest that the splicing involved in its US operations may have provided Tesco with new growth capabilities scalable not only across any future larger US chain but also across Tesco’s wider international operations. Two examples illustrate this phenomenon.

First, Tesco needed to ensure that it could deliver some of the key propositions of the Fresh & Easy brand – i.e., neighbourhood stores focused on a tightly edited offer of high-quality but affordable, short-shelf-life, fresh and chilled prepared-meal products served by a short lead-time dedicated integrated food production and distribution system – and also to transfer and adapt some of its core home–market competencies (notably its extensive experience with chilled ready meal development and associated cool-chain distribution logistics-system operation) to the western US markets. To do so, Tesco was obliged to take the necessary step of managing its own food preparation. In none of the other markets in which it operated did Tesco assume this role. Yet in the US, it took the decision to initially produce around 120 product lines – ranging from sandwiches and sushi to chilled prepared meals - in a 80,000 sq ft food preparation facility it constructed at its Riverside DC. As the
Financial Times (2007) put it at the time of the US launch ‘Tesco has become a food manufacturer as part of its efforts to win over US shoppers’; and that view has become progressively more accurate, particularly following Tesco’s 2010 acquisition of the investment of the two major UK suppliers (Nature’s Way and 2 Sisters) that followed the firm into the USA.

The reasons why Tesco did not wish to rely on local third-party providers of prepared food related to its concerns about prevailing US quality and traceability standards among such providers, and also to the opportunities self-production offered to Tesco to respond rapidly and efficiently to shifting consumer tastes and levels of demand within the store network – incorporating previous day’s sales levels into next-day delivery quantities. Nevertheless, the consequence has been to alter Tesco’s perceived identity as a retailer in western US metro markets. In those markets it has positioned itself, and is perceived as less as a supremely efficient and successful store network/distribution and logistics operator and ruthlessly competitive market leader, and more of a ‘life-style’ brand in the way, at various times, Marks & Spencer in the UK and Whole Foods and Trader Joe’s in the USA have been viewed. Moreover, that life-style brand positioning and the food manufacturing/food preparation capabilities which operationalize the Fresh & Easy proposition are clearly seen by Tesco as transferable and scalable within other parts of its international operations. Indeed, Tesco is well aware that in some of those markets leading rivals gain competitive advantages from being their own producers, particularly in an era where the provenance of the food has become a progressively greater concern to consumers. In its UK home market for example, Morrisons and Waitrose, have potentially significant competitive advantages to be exploited from their significant food production operations.

A second example relates to, a critical element of what has been described as Fresh & Easy’s ‘simple and efficient business model [which] allows it to offer Walmart prices in
convenience store locations’ (Daily Telegraph 3 December 2007). That is to say the 100% self-checkout lanes in the Fresh & Easy stores which allow them to operate with reduced staffing levels and costs relative to many of their US rivals. In this context, although Tesco had experimented extensively with self-scanning elsewhere in its global operations, the decision to make the Fresh & Easy stores 100% self checkout drew together these experiments into a single novel, but untested system – that is to say, a recombination of existing capabilities from across the firm’s global portfolio with local market induced capabilities. Indeed, some US commentators have explicitly compared the Fresh & Easy system to Clarence Saunders first ‘self service store’ Piggly Wiggly which opened in 1916 and ‘revolutionized retail’ (Kiviat, 2008) – increasing efficiency and allowing substantial labour cost savings.

In practice, the Fresh & Easy system is termed ‘assisted service’. That is to say, it attempts to be sensitive to the demands of a consumer culture in the US renowned for its customer service levels, Fresh & Easy’s Marketing Director clarifies what is meant by assisted service:

‘If you want to checkout yourself you can, if you want help we’ll provide it, and if you want us to do it for you we will. In doing this we’ve managed to create a whole new level of customer and staff interaction. The checkout operator is no longer part of the machine. Rather our customer assistants are there to help, with the added benefit that our checkouts are open all the time…Our customers are overwhelmingly positive. We’ve managed to combine technology and people to enhance the experience (Fresh & Easy Blog, April 16, 2008).

Although the concept of assisted service had been experimented with in the UK, it had never really worked in the secondary sites where it had been tested. In the US, initially the model tested was a ‘combination of normal manned checkouts and self service…then our light bulb moment came when we went - hang on a second, why don’t we just put in checkouts that can be either manned or self service so you are not limited’ (Corporate Interviewee B). As a result, assisted service is fundamentally reliant on the quality and attitude of the retailer’s
staff, and in this context experiments in the firm’s Customer Service Centre in Dundee, Scotland, had indicated the scope and scale of potential productivity gains which could be realized via enhanced employee engagement. The ‘Every Little Helps/Living Service’ programme developed in Dundee had subsequently been rolled out across the firm’s UK store network, and also into its non-store retail services. Tools from that programme were also clearly transferred to support the US assisted self-checkout operation. However, it is important to note that in practice the transfer involved a significant recombination of those capabilities with the logic and practices of self/assisted checkout in local US market consumer cultures where staff service levels had traditionally been high.

[Although] we brought all that over – back to the transfer of learning again…we went: ‘How are we going to create a culture in this business? Well we’ve got some of the tools because we know all about this [from the Living Service initiative] and so we could bring a lot of that over and then the Americans locally could adapt it… and it all worked wonderfully well’ (Corporate Interviewee B).

As in the case of Tesco’s move into food processing/preparation, these new self-checkout and labour utilization capabilities provided Tesco with potentially scalable new competencies, which could facilitate growth. Similarly, both were vital in altering Tesco’s market identity in the USA, with Fresh & Easy being positioned and viewed by customers in a rather different way than its mass-market UK parent. Consequently, we suggest a link between organizational adaptation and potential growth, and we posit that:

**Proposition 4:** The relationship between splicing of core capabilities with foreign market capabilities will be more positively related to growth when identity adaptation is high.

**Enhanced Imitation and Growth**

Imitation as a strategy for growth is quite common, often termed as a ‘bandwagon effect’ in organizational studies that examine practices such as total quality management or ISO 9000 certification (Terlaak and Gong, 2008). Studies suggest that organizations adopt capabilities of competitor firms and act to conform to a generalized identity, often referred to
as institutional isomorphism, to enable stakeholders such as investors to be better able to
evaluate and understand firm strategy (Khaire and Wadhwani, 2010). While such capability
imitation provides benefits of speed in strategic responsiveness to competitor threats, they
might not always fit easily with a firm’s platform of existing capabilities (Helfat, 1997;
Maritan, 2000; Semadeni and Anderson, 2010). In its US market entry, Tesco used several
variants of capability imitation adapting elements of competitor capabilities to facilitate
growth.

For instance, Tesco had observed that US drug-store retailers, particularly Walgreens
and CVS, had built their rapid growth since the late 1980s around the development of dense
networks of 10,000 sq ft high-visibility corner-location stores. Indeed, Walgreens had been
opening such stores at a rate of more than one per day for long periods in the 1990s. Tesco,
and its CEO in particular, recognized that this model could be emulated to form an important
element in the structuring of a new breed of smaller-format food stores developed on a
mutually reinforcing network logic.

‘Tesco’s CEO] had seen Walgreens at a mile and a half apart. But Walgreens
were able to operate at that level because their sales didn’t need to be that high,
and also they had taken 30 years to get that network together. We were expected
to get the network in 3 years’ (Corporate Interviewee A)

To realize Leahy’s vision, team specialists in market analysis/site research and property
development could not simply transfer in and embed Tesco’s widely acknowledged
competencies in those areas wholesale into the structure of the start-up subsidiary. Enhanced
competencies relating to optimization of the internally-reinforcing network configuration
planned for the new subsidiary, and necessary to support the minimum capacity requirements
of the distribution/manufacturing centre were required. Although not entirely new to the firm,
those skills were honed via processes of enhanced imitation in the US and the experience
gained from employing them at scale in the US operation was then, in turn, transferred to Tesco’s other operations.

Although the deep recession in the western US states following the global economic crisis of 2007/8 led to reconfiguration of both the planned pace and geography of expansion of the Fresh & Easy chain, it is clear that the modularity of a network-configured Walgreens-emulating model was central to Leahy’s vision of the scalability of the US venture. Indeed, shortly after Leahy’s announcement in 2010 that he was stepping down as Tesco CEO, former Tesco executive, Colin Smith - who had led the research team posted to California in 2005 to prepare key dimensions of the market entry – revealed in interview the extent of Leahy’s vision of that potential scalability and market growth: ‘It was (Leahy’s ) idea to have 10,000 convenience stores, on every junction, in every major city in the USA’ (Colin Smith quoted in FT.com Sept 19, 2010). Consequently, we observe the relationship between capability imitation and the potential for a format-modularity based growth strategy.

**Proposition 5:** Enhanced imitation of competitor capabilities in the foreign market will be positively related to growth in the foreign market

**Enhanced Imitation, Identity Adaptation, and Growth**

Whereas enhanced imitation itself can facilitate growth, it offers important organizational challenges. The firm’s organizational identity - or how it perceives itself its roles, functions, and values (Albert, Ashforth and Dutton, 2000) - is challenged as it becomes more isomorphic with its environment. This discord can potentially cause internal rifts that can stifle growth. In Tesco’s case however, enhanced imitation of capabilities was followed by adaptation of organizational identity to fully enshrine these capabilities within the organisation’s DNA.

Tesco appreciated that traditional US supermarket chains were being squeezed in a fundamental way between the Wal-Mart led supercenter operators and an emergent group of hard discount/ retailers operating smaller format stores and achieving significantly higher
levels of profitability than the supermarket chains. In particular, the US stores of the Albrect family – Aldi in the east and Trader Joe’s in the west – provided Tesco with important evidence of what could be achieved in this environment. The innovative Trader Joe’s chain offered a model of what was possible in the metro markets of the western USA, operating with exceptionally high sales densities and profitability in urban markets which, as a result of escalating community resistance Wal-Mart was finding it difficult to enter. The importance of that evidence has consistently been reiterated to us by Tesco interviewees. For example

‘It was an encouragement to be honest … when we realized what sales per square foot [Trader Joe’s] was doing, it proved the point that small stores can do serious business’ (Corporate Interviewee B)

The consequence was that as Tesco’s planning for its market entry advanced, so its brand proposition increasingly emulated many features of the Trader Joe’s offer, particularly in the areas of merchandising, store atmospherics, and aspects of its enhanced service oriented culture. As one of our Tesco interviewees commented:

‘We kind of grew towards Trader Joe’s…the kitchen tasting table absolutely, and the Two Buck Chuck, yes that was a copy of what Trader Joe’s does’ (Corporate Interviewee F).

Then explaining in greater detail that

‘once you start studying the American retail market, you realize very quickly that Trader Joe’s is the most successful food retailer in the market and it has the highest dollars per square foot…So you’re hitting 30 to 40 dollars a square foot which for the US market is huge…You realize they are doing something right. What are they doing well? They’re doing a lot of things well – keeping the operation simple and learning from Aldi on that front and having this relationship with customers -- that is unique. It cuts across probably 75% of customer types in terms of income and ethnicity’ (Corporate Interviewee F).

Enhanced imitation of Trader Joe’s capabilities, in turn, required Tesco to adjust those capabilities to appeal to local cultures of consumption. For example, one executive noted:

‘whether you call it imitation or not, clearly you tune it to the locality and what people want’
(Corporate Interviewee B). But this enhanced imitation also contributed to the realization of its vision of Fresh & Easy’s growth potential as a ‘main’ food shopping store:

‘Trader Joe’s is quite a different animal … people use it as a secondary store… it’s about finding things that that you can’t get anywhere else. Their shoppers are very loyal but they are still doing big shops elsewhere… [In contrast] We have been described as a cross between a Ralphps [mainstream supermarket] and Trader Joes’ (Corporate Interviewee B).

What is clear is that this ongoing process, which can be regarded as part of the firm’s wider attempts to become isomorphic with the environment it has entered – in terms of adjusting to both local cultures of consumption and competitive conditions – has involved Tesco in significant levels of organizational identity adaptation as it has explored the growth potential of its convenience/neighbourhood format. This capability adaptation process has helped its US subsidiary to establish brand identity and growth more rapidly than might have been anticipated. As a result, we posit that:

Proposition 6: The relationship between enhanced imitation of competitor capabilities in the foreign market will be more positively related to growth when organizational identity adaptation is high.

DISCUSSION

Tesco’s entry into the US market provides a fertile ground to examine how capabilities evolve and new capabilities are born during new market entry. While there is an emerging literature on the birth of capabilities during market entry (Autio et al., 2011, Helfat and Lieberman, 2002), this literature tends to focus on smaller firms. Our study examines capability dynamics in a large, global retail firm and their expansion into the most competitive retail market in the world. In so doing, our study makes three contributions to existing conversations on capability development, new market entry, and retail management.

Capability Development and Market Entry

The Tesco experience and our privileged access to senior executives and board members during this market entry process, allowed us to develop a rich framework and understanding of the behind-the-scenes activity at the organization and its leadership. Tesco’s
American foray was always marked with uncertainty and doubt of whether such an entry will yield successful outcomes. Though the final results are far too early to tell, our study captures the initial excitement, the challenges of capability development and transfer, and its implications for firm growth. To summarize our findings, we found three core mechanisms of capability development in market entry: *transference*, *splicing*, and *enhanced imitation*.

Transference is the replication of inter-dependent tasks and capabilities in multiple environments without local modification. For a large organization, reinventing every element of their business model or their structure when entering new markets is likely resource-intensive. Tesco managed to build a capability which was equivalent to a “plug and play model” used in the personal computer industry to facilitate user adoption. Transference of capabilities through their “Tesco-in-a-Box” model which moved a core set of operating procedures and routines, greatly enhanced its speed and reduced coordination costs. Splicing entails the creation of a new capability through unique recombination of extant capability sets drawn from multiple locations. This process of splicing capabilities together is based on the breadth of its international experience and the need for customization to the US market. In so doing, splicing allowed efficiencies in generating a new form of capability by piecing together other capabilities from international markets – this splicing effort does not only represent a learning from experience argument, but a more fundamental knowledge sharing and organizational design perspective that few studies have explored in capability development. Finally, enhanced imitation provided the highest degree of local adaptation. Enhanced imitation is the creation of unique capability via the import of key strategic influences from elsewhere in the global retail system. By inferring from competitor formats, branding, positioning, retail atmospherics and back-end logistics, Tesco was able to create an entirely new offering that differed substantively from its home market in the UK.
Taken together, these three capability development mechanisms possibly operate in overlapping if not temporally sequenced manner. The initial transference, followed by splicing of capabilities, efficiently leverages existing modularity in organizational design. This combination of transference and splicing reduces coordination costs, and substantially increased speed of growth and initial market set up. The local adaptation and customization to the Western US market was primarily through and inferential process of enhanced imitation. This triple combination of capability development and deployment was critical in ensuring their growth in the US market. In unpacking Tesco’s story, this study contributes to the literature on capability development by adding to the repertoire of how a large organization enters a market by leveraging, deploying and developing new capabilities.

**Capability Development and Organizational Identity**

This study is among the first to document the close connect between organizational capabilities and organizational identity. Whereas a significant literature on capabilities emphasize the performative aspect (e.g., Agarwal and Helfat 2009; Eisenhardt and Martin, 2000), the learning and entrepreneurial dimensions (e.g., Zahra et al., 2006; George, 2005), and its organizational design and modularity implications (e.g., Puranam et al., 2009; Schilling, 2000), we know very little about the relationship between organizational capabilities and its identity. Entering a new market, challenges an organization’s identity – its employees whether hired locally or from the home market – have to adapt to a new, and different, environment where the organization’s home market core values, norms, routines, and processes are unlikely to retain its structural coherence. By revealing how identity maintenance and identity adaptation operate when organizational capabilities are deployed in a new context and its impact on growth, this study adds to discourses on socialization processes in entrepreneurship and growth in a large corporate context.
At an individual level of analysis, studies have shown that individuals need to adapt their role identities when faced with a new context or new task (Gecas, 1982; Pratt and Foreman 2000). For example, in a study of academics who were commercializing their discoveries, Jain et al. (2009) found that these academics struggled to adapt their role identities to that of an entrepreneur, and instead engaged in buffering behaviors that kept their academic identity intact. Little is known in how large organizations react to challenges to their identity in market entry. Our study contributes to this literature by showing how identity maintenance further enhances the beneficial effect of capability transference on firm growth. Further, we find that identity adaptation works best when capability splicing and enhanced imitation are undertaken. The process of identity maintenance and adaptation appears to preserve core elements of the firm’s original identity, but provides adequate leeway to assimilate the values and norms of its environment to shape its own behaviors. We add to the organizational identity literature by highlighting the interdependence of organizational identity and capability, a topic that has not received empirical attention thus far.

Managing Market Entry in Global Retail Industry

Whereas our findings have implications for theories of capability development, market entry and growth, they also provide insights into the management of a global retail firm. The process of foreign market entry has received limited attention to disciplines of retail management or economic geography, especially because retail management has tended to be more country-specific. Most studies restrict their domain to smaller operations in retail, such as apparel, consumer or luxury goods. With changes in the economic environment, globalization of supermarket firms like Tesco, Carrefour, and Wal-Mart among many others. A supermarket retail firm is substantively different from other smaller entities in terms of the complexity of scale and scope of its product range, as well as the back end logistics associated with delivering an effective supply chain. Our study is an early, if not the first,
study to document in detail the globalization processes and the attendant capability development required in foreign market entry in this sector.

CONCLUSIONS

This study offers multiple avenues for future research. Our study entailed a rich qualitative inquiry into the firm’s new market entry. It revealed capability development mechanisms of transference, splicing and enhanced imitation – all three mechanisms which can be tested in a large scale data collection effort using surveys or secondary data. For example, studies an explore conditions when transference may be a better option than imitation. Alternatively, one could also examine failed efforts in splicing capabilities. From a theoretical perspective, we were constrained in exploring how the capability development processes impacted coordination costs or enhanced organizational efficiency, though we could see that it was manifest in higher growth rates. A fruitful avenue would be to examine capability development and deployment in the context of organizational design and its implications for coordination costs. Our findings on organizational identity open a portfolio of related studies that could add to the conversations on how organizations maintain, adapt, or evolve new identities when entering new markets or exploiting new opportunities. From an entrepreneurship literature perspective, precious few studies document how identity shapes strategic action and its outcomes – this is an interesting area that could provide valuable dividends in the overlap of socialization processes, entrepreneurial behavior and performance.

This study does have its limitations. The close contact with senior decision makers provides richness to our analysis and findings; it is tempered by the fact that it is a single firm in a single industry. Further, the market entry and consolidation process for the firm continues to evolve. Though we have some indication of growth and consolidation, it is early days to infer that this project was a success. Limitations aside, this study adds to the
literatures of capability development, organizational identity and the entrepreneurial process of new market entry.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Identity</td>
<td>Tradition grocer</td>
<td>Changing and Changing Quickly</td>
<td>Consolidation rather than Innovation</td>
<td>Increasing value Lifetime loyalty</td>
<td>Creating value ‘Every Little Helps’ ‘Community’</td>
</tr>
<tr>
<td>(Emergence / Local)</td>
<td></td>
<td>(Innovation)</td>
<td>(Consolidation)</td>
<td>(Value / International)</td>
<td>(Value / Community/Global)</td>
</tr>
<tr>
<td>Geographic presence</td>
<td>4 stores at Becontree, Edmonton, Tolworth and Watford</td>
<td>771 in 1974</td>
<td>489</td>
<td>726 of which 530 (GB) and 196 (Others European markets)</td>
<td>3,728 worldwide in 13 markets of which 2115 (UK), 746 (Europe), 814 (Asia), USA (53)</td>
</tr>
<tr>
<td>Geographic presence</td>
<td></td>
<td>Average sq. ft 5,600 sales area</td>
<td>Average sq. ft 15,200</td>
<td>Average sq. ft varies from 5000 to 100,000+</td>
<td></td>
</tr>
<tr>
<td>Size (Employees)</td>
<td>Less than fifty</td>
<td>34,262</td>
<td>40,377</td>
<td>160,000</td>
<td>440,000+ worldwide</td>
</tr>
<tr>
<td>Retail Format</td>
<td>Small open fronted shops</td>
<td>Modern stores</td>
<td>Bigger stores (new build)</td>
<td>Multiple formats</td>
<td>Multiple retail formats</td>
</tr>
<tr>
<td>Retail Format</td>
<td>Small counter</td>
<td>Smaller units closed</td>
<td>Single storey format with car park</td>
<td>‘Metro’ (city location) mini-store</td>
<td>Global Customisation</td>
</tr>
<tr>
<td>Retail Format</td>
<td></td>
<td>Supermarkets completely refitted</td>
<td></td>
<td>‘Express’ (end of the road) convenience store</td>
<td>‘Home Plus’ (non food stores only)</td>
</tr>
<tr>
<td>Retail Format</td>
<td></td>
<td>One-stop-shop</td>
<td></td>
<td>‘Extra’ (megastore) in suburb/edge of town locations</td>
<td>Metro, Express, Extra, Direct proliferate</td>
</tr>
<tr>
<td>Retail Format</td>
<td></td>
<td></td>
<td></td>
<td>‘Tesco Direct’ (online shopping)</td>
<td>New formats for new markets (Fresh &amp; Easy)</td>
</tr>
<tr>
<td>Performance</td>
<td>Sales £359 M</td>
<td>Sales £2.3 B</td>
<td>Sales £17.8 B</td>
<td>Sales £ 47 B</td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td>Profits £25 M</td>
<td>Profit £54 M</td>
<td>Profit £ 832 M</td>
<td>Profit £ 2. 8 B</td>
<td></td>
</tr>
<tr>
<td>Product Line Extension</td>
<td>Core retail only</td>
<td>Retail plus Tyre/exhaust fitting</td>
<td>Core retail only</td>
<td>Retail plus Financial Services (Tesco Personal Finance)</td>
<td>Retail plus Tesco Telecoms (mobiles), Tesco Personal Finance (savings, current accounts, insurance)</td>
</tr>
<tr>
<td>Consumer environment</td>
<td>1930s property explosion and Suburban (railways and car ownership)</td>
<td>One stop shopping</td>
<td>modern shopping environments</td>
<td>Cities as landscapes of consumption</td>
<td>On line consumption expanding dramatically</td>
</tr>
<tr>
<td>Consumer environment</td>
<td>Low cost housing estates</td>
<td>Family shopping</td>
<td>‘Continental’ (European) influence</td>
<td>Choice – variety of shopping environments</td>
<td>Environmentalism</td>
</tr>
<tr>
<td>Consumer environment</td>
<td></td>
<td>‘where the whole family can shop under one roof’</td>
<td></td>
<td>Home shopping for groceries</td>
<td>Neighbourhood (local sourcing), obesity growing</td>
</tr>
<tr>
<td>---------------------------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
</tr>
<tr>
<td><strong>Human Resources</strong></td>
<td>Rudimentary</td>
<td>Pension scheme</td>
<td>Productivity department</td>
<td>Staff development programme</td>
<td>Leadership programme (UK and internationally)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Working practices</td>
<td>‘Project Future’</td>
<td>Career progression</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>National Training Centre</td>
<td>Core skills (management development)</td>
<td>Training for international business development</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Computer training</td>
<td>Employee satisfaction</td>
<td>Global recruitment and placement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Social facilities for staff – Tesco country club</td>
<td>Profit sharing (90,000 employees)</td>
<td></td>
</tr>
<tr>
<td><strong>Supply Chain</strong></td>
<td>Traditional buyer-supplier relations</td>
<td>Closer ties between buyers and suppliers</td>
<td>Improved distribution/information systems</td>
<td>Supply chain productivity programme</td>
<td>Dedicated supply chain Fresh food distribution centre</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Contracting and performance guarantees</td>
<td>Electronic Point of Sale EPOS</td>
<td>Non food warehousing</td>
<td>Follower-supplier relations (suppliers follow global expansion)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Microelectronics for shorter lead times order to delivery and reduced stock holdings</td>
<td>Biggest grocery home shopping service in the UK</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Collaboration with manufacturers, own label recipes devised at experimental kitchens</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Marketing</strong></td>
<td>Promotions of manufacturers lines Kelloggs ‘The Sunshine Breakfast’ Beechams ‘Worth a guinea a box’</td>
<td>Television campaigns</td>
<td>Victor Value (food)</td>
<td>Tesco Finest (premium brands)</td>
<td>Green Living (environmentally friendly)</td>
</tr>
<tr>
<td></td>
<td>TESCO – T E Stockwell (tea importing and blending business) TESCO (Cohen)</td>
<td>National branding efforts</td>
<td>Home N Wear (non food)</td>
<td>Clubcard (loyalty programme)</td>
<td>Value Range (lower cost)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Quarterly mailings</td>
<td>Clubcard goes global</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Customer segmentation</td>
<td>Digital marketing</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10 million members</td>
<td></td>
</tr>
<tr>
<td><strong>Organizing</strong></td>
<td>Mainly wholesaling</td>
<td>Negotiations regarding potential entry into Europe</td>
<td>Improving distribution and information systems</td>
<td>Building for the Future – managing capital costs</td>
<td>Tesco ‘Operating Model’ (formerly ‘Tesco in a Box’)</td>
</tr>
<tr>
<td></td>
<td>Co-operation with Property Developers</td>
<td>Consolidation</td>
<td>Property development programme</td>
<td>Project Future – customer relationships</td>
<td>Standardized back office and retail processes and operating capabilities</td>
</tr>
<tr>
<td></td>
<td>Ambition to develop well organized</td>
<td>Close buyer-supplier relations</td>
<td></td>
<td>Supply chain – organizing</td>
<td>India Service Centre for</td>
</tr>
<tr>
<td>Profitable chain of stores</td>
<td>Counter service</td>
<td>Logistics and fulfilment</td>
<td>Back office processes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------------</td>
<td>-----------------</td>
<td>-------------------------</td>
<td>----------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Streamlining costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Regional differentiation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Site research and property acquisition teams</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table 3: Capability Constructs

<table>
<thead>
<tr>
<th>Definition</th>
<th>Examples of Use</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transference</strong></td>
<td></td>
</tr>
<tr>
<td>“The replication of inter-dependent tasks and capabilities in multiple environments without local modification”</td>
<td>Tesco-in-a-Box</td>
</tr>
<tr>
<td></td>
<td>Common back office, retail and operating capabilities replicated globally</td>
</tr>
<tr>
<td></td>
<td>e.g. product categorization, supplier selection, price setting, inventory processing, distribution, financial control, and payroll processes</td>
</tr>
<tr>
<td>Global application of “the best of modern retailing” practices</td>
<td></td>
</tr>
<tr>
<td><strong>Splicing</strong></td>
<td></td>
</tr>
<tr>
<td>“The creation of a new capability through unique recombination of extant capability sets drawn from multiple locations”</td>
<td>Formats – Express and Metro capability in the UK used effectively but differently in US context as new 10,000 square feet “convenience” store.</td>
</tr>
<tr>
<td></td>
<td>Customer service – Self service checkouts (builds on NCR/Tesco work in UK) – new concept of “assisted service”</td>
</tr>
<tr>
<td></td>
<td>Supply chain/product development – Riverside Distribution Centre, partnerships with tried and tested UK partner suppliers plus stringent food safety/global food standard controls on new supply chain operations</td>
</tr>
<tr>
<td><strong>Enhanced Imitation</strong></td>
<td></td>
</tr>
<tr>
<td>“The creation of unique capability via the import of key strategic influences from elsewhere in the global retail system”</td>
<td>Retail atmospherics – getting ‘touch and feel’ to access local customer (small stores connecting with American consumer, e.g. Trader Joe’s)</td>
</tr>
<tr>
<td></td>
<td>Locational dynamics – site selection and location to appeal to drive-by consumer located in dense urban networks (e.g., Walgreens locational strategy)</td>
</tr>
<tr>
<td></td>
<td>Product information – labelling on sourcing and ingredients of products</td>
</tr>
</tbody>
</table>

36
FIGURE 1
CAPABILITY DEVELOPMENT, IDENTITY, AND FIRM GROWTH

Identity Maintenance

Transference

Enhanced Imitation

Splicing

Identity Adaptation

Firm Growth

(e.g., Marks and Spencer/Wholefoods)
FIGURE 2
TESCO OPERATIONS SITES (1932 – 2008)
References


Creno C (2008) Gelato maker finds sweet success with Tesco The Arizona Republic, 29th July


London: Routledge

Durand C & Wrigley (2009) Institutional and economic determinants of transnational retailer
expansion and performance: a comparative analysis of Wal-Mart and Carrefour
Environment and Planning A 41, 1534-55.

Eisenhardt K. M. (1989). 'Building theories from case study research'. Academy of


Feldman, MS. 2000. Organizational routines as a source of continuous change. Organization
Science, 11: 611-629.

source of flexibility and change'. Administrative Science Quarterly, 48, 94-118.

Financial Times (2007)

Fiol, CM. 1991. Managing culture as a strategic resource – an identity based view of

Fresh & Easy Blog (2008) ‘Where are the robots at Fresh & Easy?’, Wednesday 16 April
(available at www.fresh&easy.com)

Experiential Search. Administrative Science Quarterly, 45(1), 113-137.


George, G. 2005. Learning to be capable: patenting and licensing at the Wisconsin Alumni

qualitative research Chicago: Aldine Publishing Company

Gulati, R. & Sytch, M. 2007. Dependence asymmetry and joint dependence in
interorganizational relationships: Effects of embeddedness on a manufacturer's


Helfat C. E. (1997). Know-how and asset complementarity and dynamic capability
accumulation: The case of R&D. Strategic Management Journal, 18, 339-60.

Importance of Pre-history. Industrial and Corporate Change, 11(4), 725-760.

Humphrey J (2007) The supermarket revolution in developing countries: tidal wave or tough
competitive struggle Journal of Economic Geography 7, 433-50

modification of university scientists involved in commercialization activity. Research
Policy, 38: 922-935.


Shifrin T (2008) Tesco storm the US with box offering *Computerworld UK* 14th January


Whitley et al, 2001


