Discount Retail Internationalisation: Barriers to the Deployment of Glocalisation

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Thesis submitted to the degree of Doctor of Business Administration to the Faculty of Management, University of Stirling, Scotland, December 2017

Abstract

The standardisations/adaptation theme is amongst the most debated within International Retailing. Much research has attended to the question of whether an MNC should adapt to local market needs or, if instead, it should emphasise the upholding of global standards to reap efficiencies. Within this debate there is much focus on resonating to market needs but less on the inheritance, history and structure of the MNC and how this affects the ability to adapt or standardise, or indeed to do both by applying the glocalisation theme. Existing research has placed less emphasis on how the MNC might be biased towards either standardising or adapting regardless of market conditions.

Central to this debate is the transfer of a retail formula. It is commonly understood that the faithful replication of a retail formula means that each element of the marketing mix is copied 'as is' from home to host country. This can at best be a benchmark as no MNC would be able to completely copy a home-derived standard to the host market, however, some retail concepts are generically better able to perform this ideal act than others. They would attempt to standardise as much as possible, adopting a strategy that maximises replication as it seeks not to duplicate resources across borders. The key point in this attempt is whether it does so out of recognising that differences are insignificant, or if it does so because it is unable to see that the differences do matter.

Seen from an institutionalisation perspective and, initially looking at the home-derived context only, one recognises the well-defined relationship and interaction between MNC and consumer culture and the position the MNC has obtained in terms of brand strength and success. It is easy to see that context will be different in the host market, but difficult to take this into account when transferring the retail formula out of the home context. More recent literature on embeddedness has addressed some of these linkages and influences which affect the way MNCs transfer their retail concepts, but the literature fails to recognise the full impact. The structural paradox embodies some of the dilemma in this discussion as it addresses the conflict between transferred operational structure and the need to adapt locally to market needs. The glocalisation theme approaches the same dilemma from a competency perspective but does not embrace what stops the MNC from being more adaptive. This research develops a model that aims to combine these perspectives.

This model is deployed to three cases, all detailing the transfer of a highly standardised retail concept, hard discounting, which is an ideal platform to explore how home-derived structure is transferred and how it deals with trans-contextual dimensions across borders. The research looks critically and in-depth at how the standards applied impact on the levels of awareness paid towards the need to adapt to trans-contextual dimensions and seeks evidence that demonstrate how attention to the differences become vital to success. At the same time, the cases illustrate that the differences may alter, but the approach taken towards them remain the same. The model defines this approach as a strategic trajectory called 'MaxRep', which is developed out of the home context and remains aligned to this particular foreign context when transferred in on the host settings. The benchmarking of this approach against the glocalisation theme leads to the identification of gaps and definition of action to be taken to overcome these barriers to applying effective glocalisation.

ACKNOWLEDGEMENTS

I am very grateful to Professor Steve Burt for mentoring me throughout my thesis. Steve demonstrated a real gift for guiding me towards the themes and theories which ensured that I made continuous progress in my research. There were times when I felt lost and frustrated, times where I was impatient and felt tempted to cut corners, but his wisdom encouraged me to allow clarity to emerge. Thank you!

A lot of input to this research has been developed through intense discussions with colleagues and friends involved in the cases. Many have shown considerable courage by being open to difficult or personal questions that have contributed hugely to establishing a balanced and objective perspective. In particular I wish to thank those who did not agree with me and who raised their voices, providing critical input, for which I am very grateful.

I would also like to thank Elizabeth Holley for her thorough and highly professional proofreading, which has resulted in a final product that I feel proud of. Thank you, Liz, for meeting my unreasonably short deadlines.

This work has been shared frequently with my wife Jinny, whose patience has been tested at many points as I repeatedly revisited the same ground in the cases in an attempt to shed yet another ray of light on events to seek even greater clarity. Thank you for your patience, but also for helping me to find cut-off points at times when I might have drowned in detail that may not have added much value to the research. You have been a fantastic support!

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

1. INTRODUCTION

Some of the leading European discount grocery retailers have expanded their operations across several countries and continents and have rapidly grown their network of stores. ALDI and LIDL can count more than 8,000 stores in their portfolio, and DIA% almost 7,000 stores. European discounters in particular, due to the size of their home countries, have built up considerable experience in starting up discount operations in neighbouring countries.

Whereas the discounters have experienced tremendous success in some countries, reflected in their growth rates clearly above that of supermarkets (Weinswig, 2015), they have simultaneously experienced some set-backs when entering new countries. Most recently we have seen LIDL withdrawing from Norway, ALDI SÜD selling their stores in Greece, and NETTO pulling out of the UK market and selling their stores to ASDA, before briefly returning in an aborted joint venture with SAINSBURY'S.

Discount retail internationalisation is not exclusively driven by European-based retailers. Successful launches in Mexico and by BIM in Turkey witness that initiatives to copy the concept can be successfully launched without the backing of a mother retail company.

1.1. THE DISCOUNT BUSINESS MODEL

The European food discount retail business model is described by several authors and the general model has been applied to other industries (Brandes & Brandes, 2011; Colla, 2003; Moesgaard Andersen & Poulfelt, 2006). The key within food retailing is to supply a limited range of everyday products at significantly lower prices. As a retail format it therefore requires customers to trade-off product variety against price.

Discount retailers today position themselves as offering between 700 and 3000 Store-Keeping Unit (SKUs) in stores sized between 400 and 1200 sq. m. Colla (2003) has classified European food discounters: highly specialised international companies like ALDI, NETTO, LIDL and NORMA and a number of national discounters, who typically belong to highly diverse retailers. The national players have typically been established as a reaction to one of the above "pure play" discounters entering their markets and are, as such, less focused and dedicated to the discount business model. Typically, they leverage off the supply chain of their mother retail companies (Colla, 2003).

A narrow range would normally be offered at a lower price point from a 'harder' discounter, whereas at the other end of the spectrum, a wider range would be offered at a 'softer' price point. Similar to American big box discounters, European discount retailers apply an Every-Day-Low-Price (EDLP) pricing strategy, which complements the concept resulting in a more continuous and hence controllable flow of goods to support a low-cost supply chain.

The lean drive within discount retail, often referred to as every-day-low-costs (EDLC), is characterized by a very strong focus on continually bringing costs down by applying a standardised and highly dedicated approach to operations and exploiting economies of scale and scope (Turban & Wolf, 2008; Brandes, 2003; Brandes & Brandes, 2011). This is more significant, the harder the discounter chooses to position itself in its markets. ALDI, for instance, has positioned itself as the 'hardest' discounter, offering only a very limited range of grocery products, dominated by store brands at very low prices.

The limited range offered by ALDI is believed to be fundamental to sustaining operational simplicity and being lean. Colla (2003) stresses the importance of firstly having only one product per line, so generating high sales per line, and secondly offering more than 90% private-labels to reduce marketing costs, thus allowing the retailer to take more control of the buying process.

Offering a limited range implies that the outlets can be much smaller than super- or hypermarkets. Store size is indeed an important factor: small is beautiful when it comes to locating stores in a dense network placed conveniently close to customers. The smaller the store/site, the easier it is to find appropriate locations compared to super- or hypermarkets and the easier it is to attain high levels of market penetration. Table 1.1 summarizes the key areas which together comprise the differential advantage of the retail hard discount format compared to super- or hypermarkets, separated into front-end and back-end differences.

Table 1-1: HDR Concept Core 'Economies of Hard-Discounting'

	Concept Core Elements	**Effect**	**Comment**
Front-end	Wide and shallow range offered at low prices, high presence of private-label	Safe money – typical 15-30% to super- or hypermarkets for comparable quality (Colla, 2003)	Price differential should be perceived as significant
		Accept a limited choice of mostly private-label range	Store brand/image has increased importance
		Develops multi-store shopping behaviour	Consumers are likely to have to supplement
	Dense store locations proximity to consumers	Customers can shop conveniently at various locations and close to home/on the way home	If store expansion is not limited by way of legislations etc.
	Store Location	The high pull enables concept to choose 2nd-rated cheaper locations	Dependent on retail structure in host market
	Service/Shopping experience	Easy/fast to shop in-store as limited choice/compact, limited service: no packing for customers	This has been utilised as slogan by some discounters
		Pick items out of ready-to-shelf boxes, limited signage	Can cause some inconvenience
Back-end	Dense store network close to RDC	RDC Cluster/distribution network, limited DSD deliveries	Stores have got only 1-2 deliveries each day

	Concept Core Elements	Effect	Comment
	Supply Chain dedicated to focus on limited range with very fast movement	No high-stocking and consequently low unit storage and handling costs	Batch-size are bigger compared to mainstream supermarkets
	Procurements can focus on limited range with high sales	Focus on buying relatively few products – deep sourcing	The volumes are driven up by low prices
		Utilise private-label to reduce transaction costs further	Each product line volume is very high
	Store Operation	Sales concentration on relatively few products avoiding complexity	This varies according to flatness of range and market penetration
		Ready-to-shelf packaging keeps handling costs low and high shelf space	Softer discounters do stock single piece to shelf
		Low frequency replenishment cycle relative to sales	Lowest frequency to secure efficiency
		No departmental structure – unsophisticated organisation, multi-skilled with high hour-utilisation	Allowing to allocate responsibilities on few shoulders
	Management/Finance	High degree of cash generation generated by high inventory turn-over	Assuming that payment terms are well managed
		Simple model – focus on operational control/execution	Strong Key Performance Indicators (KPIs) focus and intense follow-up

The business model has to be seen holistically, i.e. the elements support each other and drive efficiency (Moesgaard Andersen & Poulfelf, 2006; Schmid & Kotulla, 2011; Colla, 2003). For instance, lower sourcing costs can be utilised as an opportunity to lower prices, which in turn will generate higher sales, which again can be utilised to drive sourcing costs down and build the basis for the development of private-labels. Brandes (2003) has identified 11 success factors for ALDI, which emphasise simplicity, focus on immediate implementation, consistency, trust and control, continuous improvements and the willingness to learn by trial and error. Discount retailers are mass retailers and highly dependent on generating volume sales backed by a very dedicated supply chain set-up. The business model is consequently very dependent on scale, e.g. mass-market coverage combined with high market penetration. Figures from Germany showcase this clearly: ALDI has more than 4200 stores in Germany and 80-90% of Germans visit ALDI stores regularly (Brandes & Brandes, 2011). ALDI has achieved this mass-market position by appealing to a wide spectrum of customers who appreciate a value buy, a position which has enabled ALDI to apply an increasingly standardised retail formula. In other words, the success is driven by fulfilling customer needs, combined with the ability of the concept to deliver more added value with increasing throughput.

Even though the hard discount retail format can be readily defined, scanning the offerings of European discount retailers highlights several variations in the detailed application of the business model, e.g. the formula applied by different hard discounters varies on a number of dimensions. ALDI, often referred to as the hardest discounter, has the shallowest product range and is known to apply extreme cost cautiousness, exemplified by an almost obsessive control culture.

The Danish operator, NETTO, offers a wider assortment and is not bound by aligning its concept with an established concept outside Denmark. NETTO and LIDL offer a mix of own brands and national brands, whereas ALDI almost exclusively offers own brands.

However, when operating at the "hard" end of the scale the business model's strength is obviously dependent on the price and operating cost differential that can be attained, which in turn is dependent on the volume by line channelled through it. This, leveraged by the above-mentioned efficiency drivers, will reduce unit costs significantly. These have been named 'cost-compression-mechanisms' by Turban & Wolf (2008) and reflect the aggregated cost effects of selling a shallow range covering high demand commodities in a cost-focused system. This enhances the ability of the concept to compete even at a relatively low market share (Colla, 2003). The same concept has been noted by Zhu, Singh, & Manuszak (2009) in the case of WAL-MART's competitive advantage relative to Target and Kmart. Brandes & Brandes (2011, p.87), comparing ALDI with WAL-MART on the basis of sales per line, noted that sales were 14 times higher in the case of ALDI. The capability of the system to support a high market price differential can be substantial and has been identified to be in the region of 15-30% (Colla 2003).

This business model explains the focus on a very streamlined supply chain, with very specific and dedicated process descriptions, combined with tight control, which combine to utilise the volume and keep unit handling costs to an absolute minimum. The shallow range generates the basis for focused sourcing, reducing transaction costs in the supply chain and stimulating the development of a private-label range, which in turn establishes the basis for further reduction in transaction costs. The cost reduction attained is passed on to the customer to generate more sales. This results in a high dependence on the vendor's capacity to deliver quality and quantity, as customers will often find no substitute products on the shelf. This explains the intense concern with out-of-stock levels.

The price differential has, however, to be seen together with the other main advantages the concept offers, e.g. the convenience of proximate and fast shopping, and the ability to convey an everyday shopping offer despite the shallow range (Turban & Wolf, 2008). It is important for the retailer to consider the position it takes relative to what customers appreciate. This is even more the case if several discounters are competing within close proximity, as is increasingly the case in countries where discount retailing is maturing (Turban & Wolf, 2008), such as in many Western European countries. In Germany, for instance, judged by the high market penetration, customers are accustomed to shopping in discount stores and have ‘grown up’ with them. They have had years to adjust their shopping habits and preferences around a strong discount retail culture, developing shopping habits aligned with the format characteristics as indicated in the table above. Specifically, this includes the development and focus on a value-driven and a multi-shop shopping consumer culture.

The desire to seek simplicity and control drives the discount retailer to standardize store format and formula, which constitutes a vital element in applying a flat organizational structure with no matrix elements. Consequently, there is a high level of transparency and control. KPI’s are highly transparent, comparable and monitored frequently, and closely - optimising both supply chain and store performance levels.

As the shop units are small, it is fundamental that a cluster of stores can be established which can be operated from a central regional distribution centre (RDC). Discount retailers normally build an efficient supply structure, attaching 60-120 stores to an RDC of 15-30,000 square metres dependent on store turnover and store density. For example, in Turkey, BIM supplies up to 200 city-stores from a single RDC in Istanbul. At the RDC-level supply chain standardisation allows inter-RDC KPI’s. ALDI NORD for instance operates more than 40 such independent companies in 7 countries which amplify the transparency and cost comparison across national borders.

In the context of transferring retail concepts across country borders, it is important to understand how the core elements in Table 1-1 are transferred across borders and how host-market conditions affect the transferability of these elements. Here one should expect that customer perceptions can be somewhat different and require adaptations to the concept. It is useful to distinguish between intra-location and inter-location standardisation. The assortment for instance is standardised at RDC level – here the cluster of stores serviced by the RDC is the boundary for standardising the assortment for the concept to work. However, the assortment is also standardised between RDCs within the same country, as the products can be sourced in higher volumes at lower costs for all stores within the country. In the case of food retail internationalisation, the assortment can often only be partially transferred across borders. Colla (2003) assumes that substantial domestic buying power can be transferred into host countries, but this assertion contrasts with others who argue that the existence of cross-national synergies in food product sourcing is limited by the lack of homogeneity in customer demand across borders. Therefore, only limited scope for such inter-country synergies exists and consequently the advantage of applying inter-country standardisation for the food assortment is limited. This inherent tension provides the starting point for this study.

1.2. THE INTERNATIONALISATION OF DISCOUNT FOOD RETAILING

Most of the internationally active discount retailers have grown their international operation out of a strong domestic base, e.g. ALDI and LIDL out of dominant market positions in Germany and NETTO from a similar position in Denmark. Discount retailers fund their international launches through their profitable domestic business, mirroring the pattern identified by Alexander (1992), where retailers apply their concepts internationally as they see them relevant to international markets. For example, BIM launched in Morocco in 2010 after having attained market leadership in Turkey. Faced by market saturation in their domestic markets companies are pushed by the desire to continue to deliver growth in their overall business, and simultaneously pulled by the attractive option of being able to transfer their concepts successfully into new markets (Williams, 1992). Other expansive discount retailers have utilised synergies from multi-format retailing strategies and followed other formats into new markets, such as DIA% (then part of CARREFOUR) and LEADER PRICE (CASINO), which followed in the shadow of their larger store formats (Colla, 2003).

In line with the global strategy defined by Salmon & Tordjman (1989), the internationally active discounters have predominantly expanded by way of border-hopping within Western Europe into neighbouring countries, which seemingly have reached a similar stage in terms of socio-economic development. Apart from ALDI SÜD, which has established itself inter-continentally, i.e. in Europe, US and Australia, ALDI NORD, NETTO and NORMA have used this strategy of border-hopping to expand within one continent, Europe.

According to Alexander & Myers (2000), the tendency to look for psychically close markets is even stronger if the retailer shows an ethnocentric tendency. Their typology identifies “proximal retailers” characterised by an ethnocentric approach with a limited market extension often approaching neighbouring markets first, labelled by Vida & Fairhurst (1998) as “border hopping”. Discounters like ALDI, LIDL and NETTO, whose sales are still very much dominated by the size and profitability of their domestic markets, probably remain ethnocentric in their approach to internationalisation.

The fact that hard discount retailers have now expanded beyond geographically close markets, indicates that they have become less cautious and are willing to prioritise factors such as economic development, competition and other attributes (Valne & Weidersheim-Paul, 1973,1977, cited in Alexander & Doherty, 2009). However, perceived psychic closeness has also been identified as providing a false sense of security and can so lead to market failure (Evans, Treadgold, & Mavondo, 2000).

Finally, speed of entry and market establishment are extremely important for discount retailers, especially for the pure-play discounters who cannot lean on the supply chain of a sister format (Turban & Wolf, 2008; Colla, 2003). The establishment of a full cluster of stores and the ability to operate efficiently out of an RDC as fast as possible is fundamental to attaining an efficient supply chain and so achieving the break-even point. This is even more the case if a discount retailer decides to enter a mature country with several competing and well-established discounters, like LIDL's market entry into Denmark in 2005 or ALDI's entry into Poland in 2008.

Central to this internationalisation strategy is the assumption that the domestically defined retail formula can serve transnational segments and consequently can be copied into new markets without the need for adaptation. The basic need for discount retailers to be operationally very lean means that they develop highly efficient and standardised retail formula in their domestic market prior to becoming international. Standardisation is built into the formula at different levels with the aim to leverage efficiency. At store level for instance, the store size, range, layout etc. are kept within tight tolerances to make it easier to manage, compare and set standards across many stores, which makes it significantly easier for an area manager to manage multiple stores. This standardisation theme can then be established at the next level, which would be at the RDC level, where the standardised store layout across all stores would warrant an aligned warehouse set-up. Several guidelines prescribe the design and so ensure that it corresponds with current best practice amongst all RDC's, who share their KPI-performance.

Seen from a domestic perspective, it is understandable that the discounter wants to transfer the concepts into new countries without further adaptation: the strategy of high standardisation has been very successful in competing in a very competitive domestic market and, maybe more importantly, management perceives standardisation as a means of very tightly controlling their business on a global scale and keeping the costs down, which is at the core of the concept.

From this perspective and adding the assumption that a transnational customer segment of substantial size exists outside home markets, there is a strong logic in applying what Salmon & Tordjman (1989) classified as a global approach to internationalisation. According to their model, a standardised marketing mix and a high level of management centralisation can be applied, resulting in quick growth and high levels of economies of scale. Assuming near-homogeneous conditions in targeted countries is the underlying strategy which has essentially been applied by ALDI, LIDL, NETTO and NORMA.

However, it is noted by several authors that new markets with different retail structures may require adaptations in the marketing mix. A survey undertaken by McKinsey & Co in 2005 shows that behaviour, and the importance of value, differs between countries. The findings of Jin & Sternquist (2003), who compare price perception between US and Korea, a central element of the marketing mix for discounters, support the existence of differences in price perceptions between countries. Interestingly, shoppers in Germany seem to be very price-focused (McKinsey, 2005), which could indicate that ALDI should consider adapting the retail formula when internationalising into markets with a different appreciation of low pricing.

Making adaptations is however a critical issue for discount food retailers as any adaptation will potentially jeopardise the fundamental cost efficiencies built into the business concept, e.g. loss of homogeneity causing loss in transparency, comparability, central control and simplicity. This might cause a slow-down in expansion.

1.3. EMERGING ISSUES IN INTERNATIONAL DISCOUNT RETAILING

Any review of current developments within discount food retail internationalisation must distinguish the 'pure-play' hard discounters from other discounters, as their strategies are more independent and allow for a dedicated cost-leadership strategy. This is particularly important as it ties the Every-Day-Low-Price (EDLP) to the Every-Day-Low-Cost (EDLC) concept, which can only be achieved if they can apply industry-specific and dedicated strategies (Brandes & Brandes, 2011; Colla, 2003). Leaning onto other formats, such as super- or hypermarkets, and so sharing back-end facilities and applying a common approach to sourcing, is altogether a different strategy and will not allow for sufficient specialisation of the supply chain. Consequently, it does not support an EDLC concept to the same extent (Brandes & Brandes, 2011). This research will consequently only be relevant for pure-play hard discounters, identified as German ALDI, LIDL and NORMA, Danish NETTO, Turkish BIM and several independent but nationally-operating companies like Biedronka in Poland and REMA 1000 in Norway. The characteristic of being independent, or at least having established a quasi-independent management and operation, is important as it allows them – beyond the dedication of their functions - to institutionalise discount food industry-specific values and business cultures. These operators will be referred to as Hard Discount Retailers (HDR) in this thesis.

The research is further characterised by a focus on the internationalisation of food retailing. Food retail internationalisation has a relatively high level of 'generic' culture-dependencies attached to it, which one will not find in other retail sectors, for instance, electronics retailing. How these culture-dependencies interplay with the highly standardised imperative inherent in the HDR business model, as it is internationalised, is the key issue explored in this thesis.

The current internationalisation status of HDRs can be summarised as:

- Market penetration for the sector discount peaks in Norway with more than 40%, Germany and Denmark with more than 30%, Benelux with more than 20% and is increasing in other countries in Southern and Eastern Europe. The UK has in general been difficult for the HDR as they have been met with considerable counter-strategies by super- and hypermarkets. More recently, ALDI has been able to secure a higher share and has obtained more than 5% share in 2015 but the sector defined by the format has attained just over 10%.
- The HDR, and in particular the aggressively expanding German HDR, have obtained considerable international expansion by utilising a global approach. The business model is highly standardised and applied either by selectively choosing countries with seemingly

similar characteristics in the case of ALDI, or by approaching expansion by entering all countries within Europe, as is the case for LIDL (Turban & Wolf, 2008). NORMA and NETTO have obtained a lower degree of internationalisation. However, they are predominantly targeting developing countries in and beyond Eastern Europe.

- Recently the international expansion of HDRs has experienced some set-backs, which has led to the withdrawal from the Baltics and Norway (LIDL), from Greece (ALDI) the UK (NETTO). In these markets increased competition either from other international HDR, indigenous HDR or other competing retail formats has been central in explaining the withdrawal. These set-backs have motivated some HDR, in particular LIDL and ALDI SÜD to become more flexible, seek a more mid-market position and adapt more especially in newer markets (Weinswig, 2015).
- Some indigenous HDR, who have copied and developed substantial business know-how, have seemingly used their unique market knowledge to obtain a leading market share despite competing with the internationalising, predominantly German, HDRs. Examples are NETTO in the Denmark and Biedronka in Poland. Their strong positions could arguably be seen as evidence that a sensitivity to local demands and subsequent adaptation to these specific needs is a sustainable source of competitive advantage, if simultaneously, this gap is not closed by the international HDR. In other words, the higher market penetration by indigenous HDR and associated in-market scale economies seems to off-set the cross-border standardisations gain obtainable by the incumbent HDR.
- Seen from a global perspective, HDR have yet to successfully enter more 'foreign' emerging markets, where market characteristics and the retail structure presumably are less homogeneous and less developed, like Russia, China, or India. Predicting future demands on HDR, these markets together with the demands derived out of seeking a more mid-market position in Western markets, will demand the management of standardisation/adaptation issues on a much more significant scale.

The current state of HDR internationalisation generates a number of key questions central in the standardisation/adaptation debate. Whereas the domestic success of the HDR can be clearly related to standardisation of the business model, the question arises if standardisation, in an international context, is sustainable with growing competitiveness in mature markets and when increasingly faced by highly performing indigenous HDRs, who have become competent managing the HDR concept? Incoming HDRs seem to struggle to adapt to the local market as they focus more on installing cross-border standardised operation and, in doing so, do not only seem to lose sight of customer needs but also their legitimacy to act seen from a host-market perspective. The distinction between in-market standardisation and cross-market standardisation may be significant.

This tension seems to be driven by a strong desire to apply a domestic-market defined standardised operation across several countries on the one hand and by market conditions being different and/or changing with stronger competition from indigenous HDR on the other. Increased competition intensified by strong dedicated home market HDRs seems to expose a handicap which internationally operating HDR carry and questions the sustainability of retail internationalisation itself. Therefore, does the 'totalitarian' form of standardisation as described by Brandes & Brandes (2011), present itself as an adaptation-exclusive concept or can these supposedly opposing strategies be conceptualised as supportive elements in an international context?

Within this debate, it is important to explore the motives for cross-border standardisation in the context of the HDR as they should supposedly be solidly founded upon aiding the efficiency of the business concept. The international scalability of retail concepts and hence their ability to cross market boundaries is a central theme. However, in the case of HDR internationalisation, does the need for local adaptations in food retailing limit scalability and challenge the foundations of the cross-market transfer of HDR format-specific conceptual efficiencies? Hence, international scale will not generate scale advantages which are exploitable locally, if market differences generate significant barriers to scale transfer.

The conclusion drawn by Colla (2003) and Myers & Alexander (2007) that the HDR is a more suitable concept for mature markets, is highly contestable as the concept has been shown to have worked well in Turkey and elsewhere. Less developed countries are more attractive to expand in and less competition means that the new entrants can avoid the direct head-on comparison with other HDR (Myers & Alexander, 2007). Looking ahead, targeting increased global expansion in developing markets, usually implies facing different market conditions, which will itself challenge a highly standardised approach. Here HDRs may have to face even more challenging market conditions – how will these conditions stretch the highly standardised approach applied today?

Based on the author's own experience of working in the industry, in-market reactions to highly standardised HDR concepts indicate the need to reassess the rationale behind a high degree of cross-market standardisation. Experiences gained in emerging markets are of particular relevance when measuring customer reactions to standardisation, assuming that these concepts will be perceived as being considerably different here. The contexts here may expose differences, which on a smaller scale may be relevant in mature and highly competitive western markets as well. Dependent on market characteristics, the highly standardised approach applied by some HDR may not show sufficient appreciation of these market differences and the need for the HDR to attain a leading market share may consequently be in jeopardy. The underlying assumption is that markets are similar and that cross-market economies of scale can be derived which are greater than the disadvantages of an in-market loss of sales contribution. At the centre of this question is a clearer identification of the source of cost efficiencies, e.g. can efficiency be driven more by cross-market standardisation or by increasing host-market sales volume if adapting to market conditions? Referring to the business model description and in particular the efficiency drivers in Table 1-1, it is important to distinguish between in-market sources of efficiency, for instance standardisation at inter-store and inter-RDC level as opposed to cross-border sources of efficiency like applying similar ERP-systems or using the same global financial reports.

The attainment of a host-market leading position may in the context of cost efficiencies be driven by what value the HDR can derive out of operating at a higher scale and so pass onto consumers. However, the consumer in host markets may not have the same appreciation of value as the domestic consumer, e.g. they may appreciate the convenience of a deeper range. This balance between value and convenience has implicitly been addressed by the concept over time in the domestic market, and the concept has presumably been aligned to deliver what the domestic customer wants. However, the same question must be answered in the host market which may lead not simply to a transfer but to an entirely new interpretation of the concept dependent on and relative to new market conditions. If the HDR does not adapt and apply a new interpretation, then it presumably must be a deliberate choice based on a perceived high level of inter-market homogeneity, and, it must be based on the logic that economies of scale and scope exists which are greater than the potential benefits of adapting to host-market conditions. Or, alternatively, other motives may exist.

Building on these questions, the aim of this thesis is to explore the drivers behind standardisation in the case of the discount food retailer and to question the often-portrayed standardisation vs. adaptation dichotomy - which traditionally does not foresee any inter-dependence between these two perspectives.

1.4. PROJECT APPROACH

As indicated above it is the aim of this research to question the meaningfulness and source of the drivers behind cross-border standardisation within the HDR business model. This will initially be performed by reviewing the relevant literature on standardisation in Chapter 2 to establish the main concepts in support of standardisation. Opposing this, the relevant concepts applying pressures to adapt will be reviewed in Chapter 3. Chapter 4 will review the research methodology before presenting the cases in Chapter 5. In Chapter 6 the findings in the cases will be discussed and a conclusion is drawn.

The Chapters will in detail outline:

- Chapter 2 will provide a general review of the literature on standardisation and adaptation to develop an understanding of key themes and the main argument behind the discussion to standardise or to adapt a successful domestic business model when internationalising, with a focus on building-up the theoretical foundations behind the "Maximisation" theme as applied by ALDI.

- Chapter 3 will review recent theory on institutionalisation as it plays a significant role in explaining blind, unqualified cross-border standardisation. A review of the recent retail related literature on embeddedness, isomorphism and legitimacy is included in Chapter 3 as these concepts contribute to the level of acceptance and subsequent market penetration of the incoming retailer, as well as the market input the internationalising retail needs in host countries. Legitimacy issues, stemming from being perceived as acting differently in host markets by not giving into isomorphic pressures, seem relevant as a motive to adapt to host country conditions.
- Chapter 4: Introduces the case study research approach. The way the different themes are explored in the cases is explained and how methodology and methods are applied to specific chapters is described. Due to the personal involvement of the author and the contextual nature of the research, weight has been placed on pre-empting potential personal dispositions to expose subjectivity and establish measures to moderate the impact this bias may have had on the outcome of this research.
- Chapter 5: Three cases are presented initially with a brief outline of the case-specific situation. The main themes developed in the literature are then applied in a cross-case structure contrasting the cases and so generating common ground as well as showcasing differences between the cases. The author was directly involved in these cases, as a senior manager, giving ample opportunity to explore how micro-level behaviour influences execution.
- Chapter 6: The case material will be discussed further, and an attempt is made to draw conclusions reflecting on the way the developed concepts are presenting themselves in the cases.

The standardisation vs. adaptation dichotomy, which does not foresee any 'merging' of the two approaches will be explored by looking closer at the way standardisation is brought about within the three cases, alongside the drivers and motives for internationalisation, and the effect on the organisation and the role institutionalisation and embeddedness plays in bringing about (or otherwise hinders) standardisation.

1.5. SUMMARY

This HDR format is a common feature in many grocery markets and is generally viewed as being based on a highly standardised business model. However, this brief introductory review indicates that the indigenous HDR has typically adapted to local market needs. They have for instance deepened the range, offered more branded lines, and, in doing so have attained a significantly higher market share in some countries relative to the tighter approach applied by the internationally operating HDR.

ALDI in particular seem to have applied a highly standardised approach across markets, whereas LIDL seems less standardised at the front-end across markets.

In the context of food retail internationalisation, one could question if the experience that these international HDRs bring to a new market, and the ballast they carry, can materialise into long-term competitive advantage given that they seem to have severe difficulties in adapting to market needs compared to indigenous HDRs. Recent withdrawals from some markets would appear to support this view. Similarly, the successful start-up of BIM in Turkey shows that independence, and hence local initiative and local interpretations of the discount business model, lead to adaptations in range, store size and location strategy, which can prove to be highly successful. It must be acknowledged, however, that the business model know-how brought to BIM by ex-ALDI executives adds a strong "standardisation" element to the strategy and resulted in an operational concept which was closely copied from ALDI in Germany, although with Turkish modifications.

The ability to attain market fit may be more straightforward for the indigenous HDR compared to the centralised global HDR. Business distance and longer decision routes may handicap the global HDR, ultimately causing a delay in market responsiveness. Adaptations to the core HDR business model may consequently be easier to perform for the indigenous HDR compared to the incoming international HDR.

If not driven by the desire to gain cross-border economies of scale and scope or as a strategy to avoid the negative effects of adaptation on overall profitability, it is important to answer what motivates this drive for standardisation. Do other factors also need to be considered?

2. STANDARDARDISING INTERNATIONAL RETAILING.

Retailing is defined by Zentes, Morschett & Schramm-Klein (2007) as: "*Retailing involves those companies that are engaged primarily in the activity of purchasing products from other organisations with the intent to resell those goods to the final customer, generally without transformation, and rendering services incidental to the sale of merchandise. The retailing process is the final step in the distribution of merchandise; retailers are therefore organised to sell merchandise in small quantities to the general public. The services added to the products commonly include transportation and stock-keeping to ensure that the products are available at the point-of-sale. However, the process also encompasses the selection of products for a retail assortment, the provision of sales advice, after-sales-service and many other functions.*"

This definition does not consider the international dimension to retailing. International Retailing has experienced considerable growth of operation and concentration especially since the 1990s, although international retailing is not new. Waldmann (1978) pointed out that one of the pioneers of international retailing, Singer, was internationalising in the 1850s. US retailer Woolworth opened stores in the UK in 1909 and in Germany in 1927 and footwear manufacturer Bata operated stores internationally from the 1930s. Hollander (1970) identified 130 retailers engaged in international retail activity as of 1968., Alexander & Doherty (2009) emphasise that: "*To achieve a better understanding of what international retailing activity encompasses and the barriers that international operations face, it is convenient to think of internationalization in terms of retailers crossing political, economic, social, cultural, and retail structural boundaries.*" Consequently, the question becomes how do retailers cross these boundaries?

Dawson (1994) identifies several characteristics of retail internationalisation and later (Dawson, 2007) extends this definition further by adding that international retailing encompasses the transfer of:

- The total culture of the firm.
- The capability to adapt to the market.
- Techniques of retailing.
- Consumer values and expectations.

Alexander and Doherty (2009, p.5) offer a different definition: *"International retailing is not the transfer of concepts to new environments; it is the establishment of operations and/or consumer relationships in new markets. International retailing is firmly focused on the organisation and the organisation's involvement with international markets".* They further added the following comments to avoid misconception of their definition of international retailing:

- International retailing does not include foreign sourcing and importing as included in definitions made by Dawson (1994) and Sparks (1995).
- International retailing is about meeting customer needs in international markets.
- Internationalisation of the retail concept does include the adaptation of domestic retail operations in domestic markets to international requirements.
- International retailing is multi-channel in nature, e.g. the number of formats has increased, as has the complexity, servicing customers through internet operations.

However, defined, international retailers will consequently find themselves in a new situation. On transfer, here defined as a complete cloning of a retail concept without any adaptations, concepts will potentially have to face modifications in a new environment. A concept transfer is appealing if the environmental conditions are nearly identical, or if the retail concept has the strength to withstand the demands encountered by environmental differences or has the strength to shape the market. It is the transferability of the retail concept which determines how well the concept will perform in a new market. Research indicates that food retailing is very culture-bound (Sorensen & Wiechmann, 1975; Waldman, 1978) as opposed to fashion concepts like BENETTON or innovative furniture retail concepts like IKEA, which seem to appeal to a trans-national segment without significant adaptations. The degree of innovation and the ability of competitors to copy these innovations undoubtedly plays a significant role within the host market (Burt, 1991).

The increasing degree of internationalisation and the desire to transfer a domestic concept into the new environment, drives the interest in standardisation as companies seek to rationalise their multi-country operation and stay competitive.

Brown & Burt (1992), recommended approaching standardisation along the dimensions of consumer, consumer and marketplace, and marketplace encompassing features such as: brand/image; concept/format; operational aspects such as price position; product range and service policy; as well as management systems, e.g. supply chain management and employee capabilities.

What should become clear at this point, is that the competences required when internationalising an established retail business model are fundamentally different to what is required when operating in the domestic market especially when significant adaptation is required. Relating consumer culture and socioeconomic input to a retail formula is not a task management is confronted with in a domestic market, where market fit is sought over time. Seen from a competency point of view, multi-market management seems central to the concept and this is better embraced in the definition provided by Alexander & Doherty (2009) above. This definition will therefore be used in the context of this research.

2.1. THE STANDARDISATION DEBATE

Standardisation has been defined by (Buzzel, 1968) as "*The offering of identical product lines at identical prices, through identical distribution systems, supported by identical promotional programs, in several different economies.*" From this 'pure' standardisation perspective all marketing mix elements are copied and in the context of food retail internationalisation is seen as a benchmark which is hard to obtain. However, in the context of cost-leadership internationalisation it might offer a good description of the ultimate target in attaining and maintaining a standardised/centralised approach as framed by Levitt (1983): "*The global competitor will seek constantly to standardise his offering everywhere. He will digress from this standardization only after exhausting all possibilities to retain it and he will push for reinstatement of standardization whenever digression and divergence have occurred.*"

Medina & Duffy (1998) define standardisation as: "*The process of extending and effectively applying domestic target-market-dictated product standards – tangible and/or intangible attributes – to markets in foreign environments.*" The authors note that the product standards comprise all brand attributes and are primary dictated by the target market "authority". This definition will be used by the author. Similarly, Medina & Duffy (1998) define adaptation as: "*The mandatory modifications of domestic target-market-dictated product standards – tangible and/or intangible attributes – as to make the product suitable to foreign environmental conditions.*" They also distinguish between mandatory adaptions and discretionary customisation. This distinction seems useful in the context of this research however, modifications will be perceived as adaptations regardless of their causes unless the author specifically points to the mandatory or discretionary nature of such adaptation.

It should be noted at this point that according to the above definition, any deviation from 'pure' standardisation is essentially seen as blending standardisation with adaptation.

It is useful for this research to adopt the definition of globalisation offered by Medina & Duffy (1998):" The *process of adopting country- and target-market-dictated product standards – tangible and/or intangible attributes – from environments around the world to achieve a highly uniform product.*" In this perspective adaptations to specific country needs are integrated into a standardised product design, meaning setting new standards within the design of the retail formula.

Goldman (2001) defines the retail format as the entity being transferred by retailers into the host market comprising both elements which are visible to consumers and know-how. The term retail format is commonly used to describe industry-specific formats like discount stores, supermarkets, hypermarkets or convenience stores (Dawson & Mukoyama, 2006). The definition of a specific branded formula offered by Dawson (2007, p. 391) *"The operations of an international retailer (the formula of a retailer) interact with and become part of the structure of the total retail system"* will be used as the definition for store formula or concept in this research.

The concept of international marketing standardisation is grounded in the transfer of a home-market defined marketing approach across markets, typically bounded by national borders or regions within one country (Buzzel, 1968). This concept is central to international marketing as it impacts significantly on the capability to transfer successful businesses into different countries. Not only will it impact on the need for product adaptations and complexity, but it will have consequences for the organisational design and the nature and relationship between and role of head office and subsidiary (Waldmann, 1978; Schmid & Kotulla, 2011).

Research into standardisation has a long history and has been named differently over time. Kotabe (2001) noted that the wording around this theme has changed but that the substance has remained the same. The discussion was initially framed around standardisation v adaptation in the 1970s, globalisation vs. localisation in the 1980s and integration vs. local responsiveness in the 1990s.

The debate around the standardisation/adaptation theme has grown out of early arguments by Levitt (1983) that markets were becoming increasingly homogeneous and that the consequence for MNCs was that they were able to successfully apply a standardised approach to marketing products on a global scale. In this way they would be able to *"benefit from enormous economies of scale in production, distribution, marketing, and management"*. The counter-argument has been led by authors pointing out that different cultures and consumer habits would demand that MNCs adapt their products and practices to the local environment (Hofstede, 2001; De Mooij & Hofstede, 2002; De Mooij, 2010).

At the heart of this debate is the ability to extrapolate the international development of consumer demands: will there be substantial forces which make these converge or will historical differences between countries causing a certain yet significant level of difference in consumer demand prevail over time or become even more significant? It is likely that the meaning and significance of the same differences change considering other developments, like for instance the emergence of increased competition between firms or increasing diffusion of sources of competitive advantage.

Between these extremes lies a grey zone and several authors have warned against taking a black and white perspective on standardisation/adaptation (Quelch & Hoff, 1986; Schilke, Reimann, & Thomas, 2009), but rather suggest that one should take a more balanced view. Buzzel (1968) for instance noted that it was important to "*balance the gains of standardized marketing strategy against the needs of heterogeneous markets*."

Several studies have sought to shed light on different elements of the marketing program by considering each part of the marketing mix separately (Sorensen & Wiechmann, 1975; Waldmann, 1978; Birnik & Bowman, 2007). These ask the question if a differentiated strategy can be applied to find an ideal balance or pattern of the marketing mix elements in terms of the degree of standardisation/adaptation within each and between each element. Extending this ‘balancing’ perspective, the integration-responsiveness framework presented by Bartlett & Ghoshal (1989) and Prahalad & Doz (1987) identified the increased pressure on MNCs for a simultaneous standardisation and adaptation of their operations and influenced research in the 1980s and 1990s. This perspective adopted the possibility of ‘combining’ standardisation and adaptation by taking a multi-dimensional view of the standardisation strategy when unfolding specific elements of what is being standardised across what.

Taking this view further, Schilke, Reimann, & Thomas (2009) called for a blended perspective by focusing on market differences which are fundamental to consumers whilst simultaneously applying a standardised approach to the marketing elements which are less critical and where standardisation would bring about efficiency gains. This perspective demands an assessment of the gains from seeking a better alignment with market demands against the loss of efficiencies when adapting the retail operation (Schilke, Reimann, & Thomas, 2009). Douglas & Wind (1987) have proposed a different and probably more pragmatic way to balance the marketing strategy when making each strategic decision on its own merits and so deciding whether to standardise or adapt on a case by case basis, a perspective supported in a ‘Middle of the road strategy’ proposed by Birnik & Bowman (2007), where an MNC deals with each country and each marketing mix element separately.

To obtain the maximum benefit from standardisation, one must ensure that standardisation materialises into improved efficiency, e.g. cost savings or increased speed of expansion, outweighing any negative effects from a loss of sales. Specifically, what is called for is a detailed assessment of the standardisation gain/loss held up against the cost/gain of adaptation. Birnik & Bowman (2007) and Schmid & Kotulla (2011) have conceptualised this cost-benefit approach and devised a method for the detailed assessment of the combined standardisation/adaptation effects supporting decision making.

The Product User Value (PUV) concept introduced by Birnik & Bowman (2007) equated similarities with the argument of ‘fit’, which was brought into the standardisation/adaptation discussion to emphasise the need to qualify the nature and application of adaptations to strategy research (Venkatraman, 1989). The concept encompasses the ability to measure the suitability of a marketing program relative to local market conditions. Hultman, Robson, & Katsikeas (2009) argue that very few studies have investigated the performance implications of product adaptations in an attempt to qualify the level of fit. Schmid & Kotulla (2011) make the point that the question of fit has been ignored by many researchers so that the fundamental question, that is if the researched adaptations result in a better alignment with market demands measured by improved top-line performance, has not been addressed by many researchers. They emphasise that only 32 out of 274 articles covering the theme of standardisation/adaptation addresses the issue of fit.

2.1.1. THE RETAIL CONTEXT

Looking beyond internationalisation in the context of manufacturing/exporting and into the specific characteristics of retail internationalisation, how do these concepts apply in retailing? Dawson (1994) commented that the character of retailing was very different. He points to the differences in the business model in order to clarify what is actually internationalised and notes that research has been less focused on distribution and service businesses. Dawson & Mukoyama (2006) and Dawson (2007) question if models developed from research dominated by international manufacturing business are directly transferable to international retailing. The main differences being:

- Multi-establishment being dependent on outlet and logistics infrastructure.
- Local nature of market caused by the fact that retailers need to establish their full operation in the host country and consequently are directly affected by local aspects of consumption and attributes of culture.
- Large number of suppliers,
- Outlet as the retailer's 'product'.
- Cost structures are fundamentally different compared with manufacturing.
- High level of customer contact.
- Numerous market imperfections.

The authors conclude that retail internationalisation consequently has a unique and different character and draws on very different business models (Carr & Leknes, 2004). Dawson & Mukoyama (2006) point to the sensitivity the retailer has to develop relative to the host country consumer: *"The high level of customer contact is carried through to the need for alignment of managerial style with consumer culture. The debate on standardization versus localization, which is common in the research on internationalization, has a different context in the retail internationalization process where all retail internationalisation has to be localized to some extent."*

The retail product, and the outlet is the product, is not only dependent on what consumers buy but also on how they prefer to buy. The product for retailers can be defined as a bundle of services, which is bought by the consumer (Douglas, 1975; Nooteboom, 1980). Dawson (2007) adds: *"In an international context, the product of the retailer is anchored in a specific social, economic and political environment with the implication of considerable cultural inputs into the product design and operation."* He further points to the dynamic nature of range definition, service level and store layout which enable multiple product constellations relative to the specific local environment.

This point emphasises that retail internationalisation demands a high degree of sensitivity towards the cultural ballast that the domestic-defined product 'implicitly' carries into new environments, especially if differences between host and home culture, and socio-economic environments, are significant. Product definitions are consequently much more sensitive to the environment and adaptations are complex (Douglas & Craig, 2011).

That the demand for adaptation in international retailing opens up considerable complexities is stressed by Hollander (1970): *"Multi-nationality of operations seem to require a large number of adjustments, each perhaps small in nature, but significant and difficult to accomplish in total."* Waldmann (1978, p.21), in his research into mass retailers extends this perspective, realising that the management of marketing for specific mass retailers *"requires a substantial knowledge of a large number of hardly quantifiable environmental variables and of the firm's specific objectives while expanding internationally…"* and he points to the diversity international retailers inevitably face when expanding into foreign markets dependent on the economic development and stage of the retail system.

The highly contextual and multi-faceted nature of international retailing contributes further to leaving researchers with complex contingencies when debating standardisation/adaptation (Dawson, 1994, 2007). When reviewing 34 research articles on standardisation/adaptation, Jain (1989) noted that most research has focused on advertising and that more than half of the research was conceptual. Similarly, Schmid & Kotulla (2011), after having reviewed more than 300 articles on the adaptation/standardisation debate, cast further doubt on the value of previous research pointing, in particular, to the conceptual shortcoming of not assessing the extent of fit by most researchers. Therefore, only insignificant universally applicable prescriptions have been developed by researchers (Sousa & Bradley, 2008).

The contextual environmental complexity of retail internationalisation provides further complications as different retail concepts have their own specific characteristics. Park & Sternquist (2008) concluded that *"By lumping all retailers together and forming propositions to explain everyone's international expansion we run the risk of making the situation so muddy that we cannot accurately predict what will happen."*

The characterisation made by Schmid & Kotulla (2011) with reference to Theodosiou & Leonidou (2003) seems in this light to be of particularly relevance for retail internationalisation: *"Standardisation/adaptation research characterised by non-significant, contradictory, and, to some extent, confusing findings attributable to inappropriate conceptualisations, inadequate research design, and weak analytical techniques."* Along with Ryans Jr, Griffith, & White (2003) and Birnik & Bowman (2007) they state that the relevant variables and their relationships are often not adequately covered by previous research design. Existing research is consequently primarily descriptive, not leading to theoretically grounded recommendations for managers.

2.2. THE MOTIVES FOR INTERNATIONAL RETAIL STANDARDISATION

The motives behind the consistent interest in the standardisation/adaptation debate can not only be found in the fundamental importance of this theme to international management and the ability of MNCs to expand into new markets but is also stimulated by the increasing awareness of the aforementioned high contextual nature of retail internationalisation. This is reinforced by the increase of international retailing as such and the corresponding growth of retail internationalisation as a discipline, which has experienced a dramatic increase in scope and complexity (Dawson, 2007).

2.2.1. STANDARDISATION DRIVEN BY MARKET HOMOGENEITY

Standardisation can be understood as a response to the emergence of cross-market segments, which consequently can be approached by international retailers with a standardised/global retail concept according to Salmon & Tordjman (1989). The conditions for applying such a global perspective are that the retail formula has a broad geographical coverage across markets so that the formula can be replicated, and management can be centralised. The replication generates economies of scale which feed into the competitive advantage of this strategy. Park & Sternquist (2008) define the same strategy as: *"The global retailer largely ignores national or regional differences. The global retailer expands to markets that have a segment of consumers that will view their product offering favourably. Global retailers' adaptation to local market conditions is superficial. Vertical backward integration and private label lines are often a part of global retailers. For instance, specialty retailers with narrow and distinct product lines have developed global strategies."*

Some markets have developed in seemingly similar ways supporting the application of a standardised strategy within them. Hollander (1970) mentions rising incomes, exposure to foreign ideas, and increasing comparative lifestyle driving homogeneity across several developed countries. Martenson (1987) noted that despite the global differences, that some regions exist within which consumer differences are relatively small, like for instance within North America or Western Europe, compared with differences between the same. In support of this view, Ohmae (1989) made the point that certain well-developed markets, here referred to as the triad, e.g. United States, Western Europe and Japan, are becoming increasingly similar and ready for globalisation. This supports the early argument made by Levitt (1983) related to increased global homogeneity of consumer markets and the consequent emergence of cross-market segments allowing MNCs to standardise their offerings to maximise their efficiency and profitability. Levitt (1983) described this strategy: *"The successful global corporation does not abjure customization or differentiation for the requirements of markets that differ in product preferences, spending patterns, shopping preferences, and institutional or legal arrangements. But the global corporation accepts and adjusts to these differences only reluctantly, only after trying in various ways to circumvent and reshape them ……."*

An alternative view is that consumer differences provide obstacles to standardisation and will limit the existence of these inter-market segments as sharp income differences, customs and traditions tend to persist. Moreover, Boddewyn & Hansen (1977) argued that differences in consumer taste, habits, income and the nationalistic attitude of consumers for consumer products manufactured in other countries would limit the level of standardisation. However, they found that standardisation nonetheless had increased in the period 1963-1973. In other words, it is unclear if the dimensions affecting the level of standardisation, which can be applied are bounded by national borders, cultures and society, and reach far beyond similarities in economic development.

But will product replication lead to a duplication of image perceptions in the minds of consumers? The point that consumers are developing different perceptions of similar products has been acknowledged by several authors. Crawford, Garland, & Ganesh (1988) noted that product perception differences prevail especially when it comes to product quality, prior product satisfaction and value for money. Lipman (1988) argued that culture influences every aspect of marketing: product preference, attributes valued by customers, principals whose opinion customers accept. Consequently, cultural compatibility does affect the degree to which products are suitable for standardisation (Britt, 1974; Keegan, 1969). Expressed differently, this means that consumers are developing varying images of the same product (Parameswaran & Yaprak, 1987).

Douglas & Craig (2011) note that demand characteristics must be understood, the likes of consumer interest, taste preference, purchasing patterns, and in particular, price sensitivity differ substantially across markets (McKinsey, 2005). Consumer perception is fundamentally culturally grounded and dependent on socio-economic environments, which implies that MNCs must focus on the development of divergent global strategies meaning that they have to allow for local or regional positioning and consequently greater reliance on local skills, capabilities and knowledge (Dawson, 2007).

A case in point is IKEA in China which illustrates that the same retail concept can be perceived very differently between countries (Burt, Johansson, & Thelander, 2008). In China, IKEA is perceived as being significantly more up-market than in the UK or Sweden with the consequence that IKEA China is met with market demands which are different and where customers are unfamiliar with having to assemble the furniture themselves.

As can be seen the debate is by no means conclusive. The magnitude of market differences and the ability of management to recognise the differences certainly matter. Douglas & Craig (2011) argue that the size of the host market combined with the distinction of customer preferences, competition and market infrastructure, will play a significant role in the decision on whether to standardise or adapt. The authors take a very pragmatic perspective on whether adaptations are easy and worth undertaking.

It must be emphasised, however, that the previously mentioned status given to environmental influences, as specified by Dawson & Mukoyama (2006), is likely to call for a more delicate and pronounced management of adaptations specifically within food retail internationalisation. There is no evidence that differences in consumer perception can be ignored in specific markets despite a general trend towards more homogeneous markets on a global or regional scale. Ultimately the strength of the global retailers' 'International relevance in applying a standardised approach' must withstand the judgement of different consumers.

2.2.2. STANDARDISATION DRIVEN BY COST-LEADERSHIP

Standardisation is the most important element by which international retailers deploy a cost-leadership strategy. Porter (1985) conceptualised the cost-leadership strategy as requiring a high level of standardisation to have the capability to minimise costs of production and generate profitability by selling high volume.

Expanding into international markets and generating more sales from the same assets will reduce costs. Levitt (1983) clearly sees the benefits from economies of scale in production, distribution, marketing, and management, which provide the incentive to standardise and generate substantial competitive advantage which ultimately will result in rapid growth. Extending this perspective into international retail management, Salmon & Tordjman (1989) have, in their classification system and definition of the global retailer, pointed to the operational advantage of maintaining a common approach across markets with the ability to derive benefits and synergies across markets. By standardising their marketing approach, e.g. the marketing mix, they would be able to reap economies of scale and scope. This view is supported by Schilke, Reimann, & Thomas (2009): *"The message to managers that cost-leadership-oriented organizations can successfully adopt marketing standardization is not surprising, as a clear alignment exists between cost leadership and marketing standardization."* And by Zou & Cavusgil (2002), who found that firms with a globally integrated marketing strategy had higher levels of performance and that this strategy was a means to gain competitive advantage in international markets.

Alexander & Doherty (2009) argue that the strength of the Salmon & Tordjman (1989) classification is that it tacitly emphasises the central role of the ability to transfer retail concepts into new markets. According to this point, the attainment of efficiency gains is directly proportional to the capability to transfer, e.g. the concept of transferring must be understood as in 'copying' without making adaptations to the retail concept. The authors identify BENETTON, LAURA ASHLEY, IKEA and MCDONALDS as examples of international retailers who have been able to apply such a global strategy successfully.

Porter (1985) does not address international operations specifically in his typology of cost-leadership, but he emphasises the role of sales volume as the basis for obtaining efficient operation. In fact, research into operational costs for retailers applying cost-leadership strategies confirms that these companies operate with considerably lower unit costs (Moesgaard Andersen & Poulfelt, 2006; PlanetRetail, 2006; Christensen, Baumann, Ruggles, & Sadtler, 2006).

Returning to the earlier noted differences between manufacturing and retail internationalisation, whereas products utilising the same manufacturing facilities, exported across borders, food retailers must re-establish their 'production' (outlet and logistics infrastructure) in the host country (Alexander, 1997; Dawson & Mukoyama, 2006). Selling similar products in food retailing across borders can be limited as demand for food products is very culture-bound (Waldmann, 1978) and gaining economies of scale from international or regional sourcing might be limited. Food retailers will consequently must source significant proportions of the range locally and so have difficulty in deriving significant economies of scale simply from their international presence. The re-establishment of production and product sourcing in the host country means that economies of scale must be derived specifically out of the volume in the host market, and that market share attained in the host market becomes a prime source of generating scale even for the international retailer.

The logic in applying a standardised/centralised approach in obtaining cost-leadership as advocated by Levitt (1983) and Park & Sternquist (2008) is challenged by the local character of food retailing emphasised by Dawson & Mukoyama (2006). The latter perspective ultimately demands a significantly different local focus and sensitivity to market needs, consequently calling for adaptation, to elicit the market penetration needed to gain host-market-derived economies of scale. The consequences are that the sources of economies of scale, expected by Levitt (1983) and derived out of production and distribution in the manufacturing and export sectors, are contestable and probably limited in the case of food retail internationalisation. This will ultimately have an impact on the relative competitive strength of an internationally operating retailer compared to an indigenous local competitor.

Having questioned the viability of obtaining cross-national economies in food retail sourcing, it may well be the case that some product categories with a high cross-border affinity do offer the grounds for cross-national vertical integration when establishing store brands which are manufactured in one location and sold across international markets as noted by Turban and Wolf (2008). However, this may only be applicable for product categories, where market homogeneity is relatively high. A case in point is LIDL's establishment of manufacturing capacity for confectionery in Central Europe in 2008 or ALDI's central coffee manufacturing facility in Germany.

However, beyond economies of scale in sourcing and production we must look at other sources of economies of scale, such as in marketing and management (Quelch & Hoff, 1986). Doherty (1999) has emphasised that due to the potential for imitation in retailing it is the process-based knowledge assets deployed within the formula which are important intangible assets and make the retail formula specific for a particular retailer. These management competencies are transferred to host countries as expertise in buying, merchandising, logistics etc. and can be a source of sustainable competitive advantage. Turban & Wolf (2008) offer further support of this view when pointing out that the standardisation of management and personnel, branding and organisational practices in general, are sources of cross-national synergies, and Rau & Preble (1987) question if the transfer of marketing ideas does help to achieve scale economies. However, referring to the comments made above linked to Dawson and Mukoyama (2006) pointing to the sensitivity of transferring domestic-culturally based competencies such as management style etc., this might indicate a need to transfer practices selectively and cautiously dependent on the character of the host-market environment.

What we are left with are different and contradictory recommendations about applying standardisation/adaption in retail food internationalisation, to obtain economies of scale compared with manufacturing. The fundamental argument driving standardisation with the aim of harvesting significant economies of scale, is severely challenged by the nature of the industry, owing to the required re-establishment of production in general, and the culture-dependence of the host market affecting how the product is perceived locally.

What is required is a more comprehensive assessment of the cost/benefits when evaluating the impact of standardisation/adaptation, to develop the ability to evaluate specific decisions and choose the most appropriate degree of standardisation. Birnik & Bowman (2007) and Schmid & Kotulla (2011) have developed different, yet conceptually related, assessment methods, which have been combined in Figure 2-1.

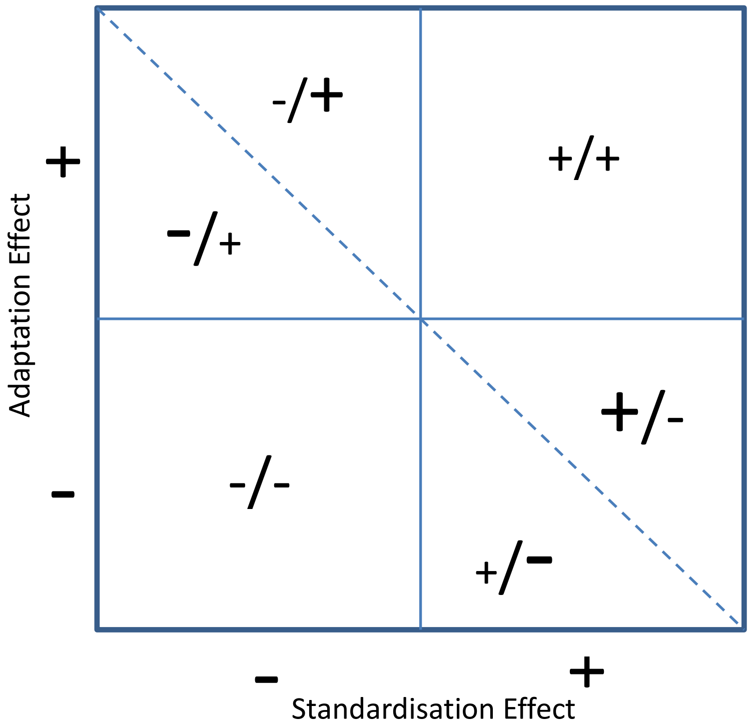

Figure 2-1: Standardisation/Adaptation Matrix

Birnik & Bowman (2007) have referred to adaptation effects as ‘Perceived Use Value’ (PUV), whereas Schmid & Kotulla (2011) have used the change in sales contribution as a measure of the effect of adaptation. Along the diagonal line the effects of standardisation and adaptation are in balance. Below the line, the negative impacts dominate, e.g. where the negative effects of either option are greater than the positive effects of the opposing element. Birnik & Bowman (2007) name the upper left area above the cross-diagonal, where the effects of adaptation are higher than the negative effects of standardisation, as ‘New Capability Development’. The matrix facilitates the classification of specific decisions relative to their aggregate adaptation/standardisation effects.

As a conceptual model Figure 2-1 presents itself as a seemingly manageable cost-benefit analysis tool but, in reality, it requires complex forecasting of the sales increase to be gained when adapting, against a cross-functional and cross-country assessment of cost implications stemming from having made a certain degree of adaptation. This leaves management in a situation where judgements and intuitive assessments form the basis of whether to standardise or not. A manageable and applicable concept to guide the standardisation decision does not exist.

2.2.3. STANDARDISATION FOR ACCELERATED EXPANSION

Salmon & Tordjman (1989) argued that global strategies have the advantage of being rapidly applied in international markets. The fact that a retail formula can be transferred directly does secure the replication of procedures and operational standards, as well as the easy transfer of staff between home and host country. Park & Sternquist (2008) confirm this essential link between the standardised/centralised core business concept, and the ability to expand rapidly on an international scale: *“The centralized-standardized characteristic is extremely important because it is this characteristic which allows global retailers to expand very rapidly and provides them with the basis for business format franchising.”* The authors refer specifically to franchising however, they make the point in the same article that ownership of subsidiaries may be preferred if competitive advantages are grounded in transactions/operations of the retailer. Winter (2001) also supports the above view and further stresses the effort which has to be mobilised in order to replicate a retail formula.

It is contestable, however, due to the culture-bound nature of food retailing, whether international food retail expansion can be perceived as a truly global approach compared to companies like BENETTON or IKEA, which to a vast extent are selling the same assortment globally and can source their products centrally. the re-establishment of a food assortment will no doubt take some time. However, the fact that the international food retailer will have to lean on locally obtained volumes, is another reason to expand quickly in the host market.

The benefits of being first and becoming dominant in a market is further emphasised by Turban & Wolf (2008), who pointed to the significance of and ability to translate ‘First-Mover-Advantages’ into a sustainable source of competitive advantage. They point to the relative competitive advantage for the early mover in terms of image/brand, customer- and supplier relationships, and the ability to secure favourable store locations, which can lead to the establishment of monopoly-like market positions, at least temporarily. The authors argue that the first moves by ALDI and LIDL led to them respectively obtaining leading market positions in more than 60% and more than 70% of the countries they have entered. This confirms the importance of moving first. However, ALDI subsequently lost their leading position in two countries to LIDL, and in Denmark to NETTO. The level of impact is also closely tied to the first-mover, for example LIDL, being the first in Finland, had a significant impact on retail prices, which dropped by 1.5%. Such impact is central to establishing a strong image amongst consumers (Moesgaard Andersen & Poulfelt, 2006).

A supplementary perspective on why accelerated growth via standardisation is an important factor, is offered by Park & Sternquist (2008), who see the degree of innovativeness of the retail concept being ‘secured’ by fast expansion. The fact that HDR are easy to imitate may imply that this point is particularly valid in the context of HDR internationalisation. In contrast, the case of TESCO, who made a successful late entry in South Korea based on a joint venture, yet managed to out-perform CARREFOUR, shows that even a late entrant can be successful if the internationalising retailer can offer a substantially higher value, which is appreciated by the consumer. This is an example of how adaptation to market demands can result in success, even in a market occupied by a world-class retailer for years. Moving first but ignoring market fit seems to have caught up with CARREFOUR.

2.2.4. STANDARDISATION DRIVEN BY THE AIM OF STANDARDISING CONSUMPTION

Markets are shaped by all the actors in it. This perspective takes the view that consumer habits are also influenced by the retailer. Indeed, it is shown that innovative retailers like IKEA and BENETTON have the capability to shape the character of consumer demand in the markets they enter (Dawson, 2007). In this way, the retailer transfers consumer values and expectations from their domestic to the host market.

This perspective is of particular relevance in the context of cost-leadership internationalisation, as one can argue that the offering of the cost leader has increased relevance only if the offer can provide the customer with a significant value compared to competing retailers. In this way, the incoming retailers can set a completely new standard for the price-quality relationship (Dawson, 2007). Adding to this perspective, Martenson (1987) argues that a high degree of standardisation driving costs and prices down can compensate for consumer differences and open up cross-national segments.

This perspective provides a strong argument for standardisation if the consumer is motivated by the offer and, in pursuing it, is willing to alter her/his consumption patterns and shopping habits. Levitt (1983) expressed this push: *"When the global producer offers his lower costs internationally, his patronage expands exponentially. He not only reaches into distant markets, but also attracts customers who previously held to local preferences and now capitulate to the attractiveness of lesser price. The strategy of standardization not only responds to worldwide homogenized markets but also expands those markets with aggressive low pricing."*

In the context of the cost-leadership strategies presented by HDR, it is the character of the offering that may stimulate certain changes in shopping habits: the value is high, the range shallow and stores are located within close proximity, offering the convenience of fast shopping (Turban & Wolf, 2008). The market penetration of HDR in some countries, peaking at 40% in Norway, indicates that consumers have become familiar with altering their shopping habits and becoming multi-store shoppers, often visiting several different formats weekly. These changes are driven by the blend of value and convenience which the discount stores offer and the general acceptance of the HDR format. In addition, a high degree of innovation, for the cost-leader strategy resulting in significant lower prices, can secure a high market impact as can be witnessed by IKEA, H&M and INDITEX (Dawson, 2007).

Driven by a very distant head office perspective and the belief that customers will seek value above all and accept a limited choice, as they may do in the HDR home market, it is understandable how this perspective can influence and shape a push strategy. However, the expectation that the HDR may attain the same market penetration in host markets, as at home, assumes that the customer is as value-oriented, and has the same trust in the brand, as domestic customers.

This could explain why international HDRs, at least to a certain extent, ignore the different characteristics of consumption in host markets. The HDR might still try to standardise with the aim of shaping consumption patterns in favour of the retail formula it brings new to the market. What becomes important in this context, is that it must have the capability to know what and how much the market can be impacted by its presence and, alternatively, when it should adapt because differences are of a sustainable nature. However, the concern expressed by Aoyama (2007) related to the quotidian nature of relationships with consumers and the derived capability to shape consumption towards accepting less variety, and thereby supporting oligopolistic market developments, is directly linked to the approach the HDR take.

2.2.5. STANDARDISATION DRIVEN BY STRUCTURAL DISPOSITIONS

Assumptions held by the internationalising retailer can lead to errors in perception, which may affect their decisions on standardising/adapting, e.g. they may standardise more or less compared to what they should objectively do. Schmid & Kotulla (2011) have, in the development of their research model for standardisation/adaption, pointed to the moderating effect of perception errors*: "In this context we define a manager's perceptual error as a deviation in his/her subjective perception from quasi-objective reality. For instance, there might be a case in which a manager perceives the cross-national homogeneity of demand for a specific product as being high and thus decides to choose a high degree of international product standardization. However, if the cross-national homogeneity is in fact rather low, indicating a perceptual error of the manager, the pursued strategy might prove unsuccessful, although the manager's strategic decision was coherent with his/her situational perception."* The bounded rationality behind decisions is of particular relevance in the context of the centralised and international nature of retail internationalisation, due to the distance of decision makers from the host market and because their judgements are potentially bounded by the context in the home market, which may be different to that in the host market.

This tendency to be affected by the home market has been labelled as self-reference criterion (SRC) and refers to the tendency of individuals or groups – often unconsciously – to apply the standards derived from their own culture (Lee J. E., 1966). Due to the tacit nature of the cultural content in the SRC concept, this can potentially result in the transfer of an ethnocentric aptitude into the host market. Lee (1966), formulating a method to expose the effects of SRC, applies four steps, in this case seen from an American home perspective:

Step 1 – Define the business problem or goal in terms of the American culture traits, habits, or norms.

Step 2 – Define the business problem or goal in terms of the foreign cultural traits, habits, or norms. Make no value judgement.

Step 3 – Isolate the SRC influence in the problem and examine it carefully to see how it complicates the problem.

Step 4 – Redefine the problem without the SRC influence and solve for the optimum business goal situation.

Interestingly, Lee (1966) emphasises the need to relate the business to the home-market culture, and not just to the host-market culture, as the first step. The ability to clearly see and understand home-market success in context, and to back-track the effect of trans-contextual differences, will help the HDR to avoid underestimating differences. Finkelstein (2003, p.151) supports this point, based on his research on business failure, emphasising the importance of understanding the deeper causes of success. This is particularly relevant in an international cross-border context for, if the influence of the home-market context and market conditions on the home market are not fully appreciated, then the influence of market conditions in the host market can also be potentially underestimated.

Combining this with what Finkelstein (2003) refers to as a ‘a false self-image’ implies that the internationalising HDR would possibly overrate its own capabilities and believe that the key competencies are applicable in the new situation, because they are assuming that the causes of their success are context-neutral and can lead to success in the host market as well. This proposition is further supported by Audio, Locke, & Smith, (2000), who, based on research, suggest that success increases the felt self-efficacy of decision makers. This point is further supported by Alexander & Doherty (2009, p.318) who question the transferability of brand image, warning international retailers that they often over-value the competitive advantage they believe themselves to have. They point to the problems of transferring brand image across borders.

Finkelstein (2003), refers to this replication of approach as causing ‘Negative Transfer’ in which the transferred knowledge is not only not applicable, but can be directly toxic: *“Negative transfer exists in multiple guises, and is often cloaked in the seemingly unimpeachable logic of core competencies, so we need to be especially alert to how the logic can kill when applied superficially.”* Seen from this perspective, the research conclusions of Vida, Reardon, & Fairhurst (2000) seem paradoxical, as the authors clearly establish a connection between the perceived brand strength and the strength of their own core competencies as clear motives for initiating internationalisation in the first place. This may just be one example of many potential perception errors which generate ‘blind spots’, essentially blocking the HDR from perceiving and facing reality in a new host-market context. These blind-spots then become part of what Finkelstein (2003) refers to as ‘unsuccessful habits’ derived from various causes of trans-contextual misconception.

Referring to the re-use of competencies, the international retailer will have based its drive towards internationalisation on home-market-derived strong brand and core competencies (Vida, Reardon, & Fairhurst, 2000). Consequently, the logic of transferring these competencies and re-applying them in host markets, with the expectation of replicating success, is understandable. However, if market differences are ignored because of the co-alignment of host-market strategy, in the attainment of a global approach - where the re-use of resources is the dominant focus (termed as ‘internal fit’ by Schmid & Kotulla (2011)) - then the HDR may be predisposed to market failure. In order to attain this high internal fit, the HDR will seek to maintain a high level of homogeneity, even across borders. Founded in the replication strategy applied in the home context in a period of rapid growth, the HDR, one can assume, will have obtained a very high level of shared values and beliefs. These will drive a rapid growth phase, deploying best practice and manifesting itself in a very homogenous culture as pointed out by Van den Steen (2010). The author suggests that the strength of home-market success increases homogeneity. It is paradoxical that success seems to feed the strength of this tendency.

Seen from a head office perspective, the desire to make use of existing capabilities will be strong, if head office management is simultaneously convinced that it operates a strong retail concept with the capacity to shape markets as outlined in Section 2.3.4. The market selection process is then focussed upon the need to select markets which are relatively homogeneous.

This competency-driven logic is motivated by the drive for simplicity, to avoid duplication and not reinvent the wheel, and to build on a well-developed and established retail concept grounded in the home market. Waldmann (1978) commented that there could be a rationale to see standardisation as a preferred and convenient option from the perspective of the headquarters, as it makes dealing with multiple foreign countries much simpler for top management. His argument was an extension of what Wiechmann (1974) concluded in relation to head-office involvement in product decisions, where he experienced a clear tendency to standardise and adds: *"Apparently - such involvement of headquarters in product decisions then tends to spread to other elements of the marketing program."* This could indicate that the level of diversity which can be applied may be limited, as head office aims to apply a unified approach across the mix elements.

This 'tendency to standardise' can be understood as an obvious choice for head office management, a choice which is driven by the very nature of the role. Head office management is in a central position to facilitate the global aspects of internationalisation, the utilisation and reuse of competencies, assets and best practices across borders and in this way to maximise synergies. Waldman (1978) acknowledges this when stating: *"In fact, the ultimate objective of a firm's foreign expansion is, or should be, the international transfer of all or most of its distinctive skills; and a large part of its skills are of a marketing nature."*

The point here is not an argument for or against the necessity of deploying forces at a central level to ensure that synergies are reinforced, it is rather that employees at a corporate level have a clear bias towards standardisation which stifles the company's ability to adapt. It will only adapt out of necessity perceived at this distant and often sheltered central location, as a reaction to having experienced problems or having experienced limited market penetration. Consequently, the retailer only makes a delayed and/or filtered response to market demands, compared to making adaptations immediately to host-market conditions based on market research (Wiechmann, 1976). Further, the author noted the tendency for head office executives not to seek out market research, as their assumption was that market demands would be similar.

In reality, one can question if an MNC which has chosen a standardised/centralised strategy, would have the inclination to adapt to market demands. Considering HDR specifically, the aggregated strategic capability is all about applying a narrow operational model to gain dedication and cost advantages. The transfer of any 'capability to adapt', as asked for by Dawson (2007), seems to have to answer the question of where this capability should be present to have an influence. For a global/centralised approach it might seem like a contradiction, as the core reason for keeping management control and decision making at a central level is to secure a high level of standardisation!

Firstly, head office will only have the capability to adapt if it was required to do so on the home market, and, looking at the host market, where market closeness might stimulate the motivation to adapt, head office executives are reluctant to devolve the power to make significant adaptations and changes to the marketing strategy to local management, due to the centralised set-up of the business model.

Leaning on the comments made by Wiechmann (1976), that the decision to standardise/adapt was rather arbitrary, and not based on market research, but rather on subjective opinion, it is easy to understand the tendency that top management at head office, being remote from the markets and bound by the home organisation, could easily be convinced that standardisation is the obvious choice.

The discussion of whether to standardise or adapt consequently runs the risk of becoming a subjective interchange of individual opinions and beliefs, in which subsidiary management, as subordinate to head office management, probably will draw the short straw. Martenson (1987) argues the case and notes that: *"Sometimes it is a question of attitudes; if managers feel that cultural differences are important a more decentralised planning may be found along with the use of advice,"* The interesting use of the word *'feel'* in her statement underlines the fact that it becomes a rather subjective and intuitive matter, where the distance from host-market conditions and the bounded rationality of head office management plays a fundamental role.

This places at the heart of decision-making the aptitude or disposition which central offices carry. Burgelman (2002, 1991, 1983), researching the ecology of strategy-making, points to how evolved structure frames and bounds decision making. The author particularly points to how the 'Strategic context determination', defined as the ability of the organisation to fine-tune strategy-selecting processes, evolves over time, being affected by:

- The strategic focus of the company: if the company chooses a narrow focus, then the strategic context will be narrowed to reduce variations and sustain reliability of output.
- An intensely competitive environment: operating within such markets will further require that the organisation aligns all resources behind its focus.
- Positive market feed-back which nurtures internal selection: if the organisation is successful, the company can exploit its position and potentially dominate the market, implying that it can lean on internal selection processes rather than external ones.

The strategic context determination would under the above conditions become more dedicated and align strategic activities behind the current strategy, simultaneously increasing its ability to filter-out non-core suggestions. Applying this concept to HDR seems particularly relevant, as the trans-contextual dimensions can be expected to elevate the central issue of how embeddedness in the home context determines the scope of strategy in the host context.

Can the selection of homogeneous countries ensure that the international retailer avoids having to adapt? Evans, Treadgold, & Mavondo (2000) argue that perceptions of cultural closeness, seen from the home-market perspective, may breed corporate arrogance and consequently too little attention is paid to differences between host and home context. Myers & Alexander (2007) make the point that greater psychic distance should conceptually be a reason for the international retailer to adapt to market demands. However, referring to Alexander, Rhodes, & Myers (2005) the authors argue that empirical data suggest that most internationalisation takes place in countries perceived as being psychically proximate. The ‘psychic distance paradox’ identified by O'Grady & Lane (1996) explains this phenomenon. For example, the perception that geographically close markets may be ‘automatically’ psychically close to the home market can, according to the paradox, lead to a misperception.

Can international retailers, who take a standardised/centralised approach, in fact avoid targeting markets which are different and where they would have to make adaptations? This question can only be answered if the HDR can draw the conclusion that the markets are similar and that they will stay similar. This leads full circle back to the importance of market assessment and the impact it has on the application of the business model, both in a static as well as in a dynamic perspective. The capability to assess a market pre-entry, and conclude that it is homogeneous, seems to be tied closely to the capability needed when having to adapt.

Goldman (2001) challenges this view, would an HDR faced with non-homogeneous market conditions automatically adapt if operating in a multi-market context? According to his research of various retailers’ adaptations when entering China, noticed that if the retailer was confronted with having to adapt only in a few smaller peripheral countries, whilst simultaneously operating a standardised retail concept successfully in the dominant home market, the retailer would choose not to adapt - based on the perceived impact it would have on the overall standardisation advantages it already encounters. In other words, the retailer gave priority to the home market as it was concerned that positive effects of adaptations made in the host market would have greater negative impact back in the home market.

This discussion shows that the existence of an internal logic in the context of a global and centralised internationalisation strategy is dependent on how feasible it is to assess market conditions and the attitudes and openness of senior management, and whether any market research can be interpreted to be a better fit of the business model. This might be questioned if, firstly, the need is not seen at head office and, secondly, if the capability to adapt is insufficient to interpret customer insights into operational adaptations.

2.3. STANDARDISING RETAIL INTERNATIONALISATION

Having examined the rationale for standardisation in retail internationalisation, what standardisation means for the internationalising HDR business can be further analysed by looking at the treatment of key parameters when crossing borders. This discussion can be structured around four central themes: the marketing mix, store image, operations, and values, expectations and culture.

2.3.1. STANDARDISING THE RETAIL MARKETING MIX

Originating in the 4Ps framework defined by McCarthy (1964), the marketing mix concept has been developed in the context of single-market manufacturing. In an application to retailing, Walters (1988) applies a wider classification encompassing product characteristics, price considerations, customer service, store locations, facilities, institutional profile/image, in-store ambience, design and visual merchandising and consumer communications. Similarly, McGoldrick (1990) developed an extended classification of the marketing mix elements more relevant in the context of service companies, to encompass seven elements: product range, product image, consumer franchise, shelf price, distribution, shelving, and advertising.

Whilst there are several classifications of the components of the retail marketing mix, the discussion here will distinguish the following marketing mix elements viewed as most relevant to the HDR:

- product range
- pricing
- service
- store location, density, access.
- store ambience/merchandising/layout
- market communications

Research into international marketing strategy has often dealt with these elements holistically and has addressed the standardisation/adaptation issue relative to all elements. Cross-market homogeneity has been perceived by several authors as a major driver behind the general standardisation of all marketing mix elements (Chung, 2009; Sousa & Bradley, 2008; Zou & Cavusgil, 2002; O'Donnel & Jeong, 2000; Katsikeas, Samiee, & Theodosiou, 2006).

Hultman, Robson, & Katsikeas (2009), researching the relationship between marketing mix and performance, noted*: "Previous studies have often treated marketing mix elements holistically and employed global or higher-order reflective conceptualizations that have a single path coefficient to performance. However, prior research has shown that the performance-relevance of adaptation differs across the components of the marketing program."* Theodosiou & Leonidou (2003) support the view that the product is central to the standardisation/adaptation debate.

Other researchers have approached the debate from an internal/competency perspective, looking closer at the skills needed to adapt. This approach will be addressed in the next Section, when discussing how HDR standardise. For the discussion here, it is important to focus on relevant research on the standardisation of specific marketing mix elements in the context of the internationalising HDR.

Several authors have proposed models to systematically prescribe processes to develop the most suitable standardisation/adaptation level relative to international marketing strategies (Vrontis, 2003; Birnik & Bowman, 2007; Schmid & Kotulla, 2011). These are based on a general summary of the literature and do not deal exclusively with the retail internationalisation context. However, Vrontis (2003) found evidence that marketing to consumers in general requires higher degrees of adaptation specifically for the marketing mix elements of products and promotions. A few authors have approached the marketing mix standardisation/adaption issue from a sector perspective. Calantone, Kim, Schmidt, & Cavusgil (2006) suggest that marketing mix adaptations are generally dependent on industry practice and high levels of cross-national differences, whilst Evans, Mavondo, & Bridson (2008) argue that one should standardise irrespective of cross-national cultural and business distance to maintain the retail strategy.

Looking at specific elements, Sousa & Lengler (2009) support the view that market communications must be adapted if a high level of psychic distance exists. Sousa & Bradley (2008) support this statement, as they argue that high cross-national similarities in the environment nurture pricing standardisation, and they make the point that standardisation requires lengthy internationalisation experience. The need for experience to adapt pricing is supported further by Lages & Montgomery (2006). Katsikeas, Samiee, & Theodosiou (2006), are generally in agreement with the above, adding that standardisation is appropriate if regulatory conditions and the stage in the product life cycle are similar.

- Product range

The core product range is central to the HDR business model, which is basically shallow, unbundled and focused on the delivery of mass products to the customer. This range, combined with low pricing, generates a demand pull (Moesgaard Andersen & Poulfelt, 2006). This element is fundamentally both standardised and adapted, e.g. SKU-count and category mix are prescribed by the home market, while the items themselves are essentially adapted and sourced in the host market. The latter process is however standardised, e.g. HDR apply a standardised process behind the adaptation made to the assortment.

The mix of brands/private-label is typically kept on a similar level internationally and is part of the unique retail formula which distinguished NETTO, ALDI and LIDL from one another. Turban &

Wolf (2008), when comparing LIDL with ALDI, have identified higher levels of cross-border standardisation and a more systematic sourcing of private-labels across Europe at LIDL. This indicates that the private-label range can be a source of increasing cross-national scale economies when internationalising into homogenous countries. The same tendency is noticeable when sourcing non-food products for the weekly or bi-weekly non-food promotions: these items are less culture-bound and can be sourced internationally to a higher degree.

Despite the shallowness of the range, ultimately it must fulfil the criterion of offering coverage of the daily shopping basket to offer customers a certain level of convenience. Customer appreciation of value versus their acceptance of shopping in an environment offering only a limited choice is a key attribute of the retail formula. Adaptation here is certainly very contestable, as the level of convenience customers may expect differs significantly between countries.

- Pricing

"Low prices are the raison d'être of the discount company" (Moesgaard Andersen & Poulfelt, 2006). However, looking at the segment and price positioning between HDR, some nuances are visible. The higher private-label mix in the range at ALDI allows the HDR to offer products which are cheaper at a mass-market quality level. LIDL, differentiating itself from ALDI, offers more branded products in some brand-sensitive categories. A similar strategy is followed by NETTO, who carries even more branded products. A direct price comparison on a product like-for-like basis is consequently difficult. Private-label products are generally priced 10-20% below similar branded products, dependent on the brand differential strength between the branded product and the store brand, e.g. price differences are generally low on commodities like bread, flour, sugar and higher on cosmetics, cereals and carbonated soft drink.

The fact that the range is culture-bound affects the standardisation/adaptation decision and pushes the pricing decision into the local sphere of the host country. Again, however, globally defined procedures and policies secure a controlled adaptation with the focus on delivering a consistent price position globally.

Pricing is used by the HDR to symbolise cost-leadership. Aggressive and proactive price adjustments, mostly downwards, are a core justification of the strategic position (Moesgaard Andersen & Poulfelt, 2006). The authors identify aggressive pricing, with the aim of gaining volume market share, as fundamental to the business concept beyond food retailing. Substantial importance is placed on constant monitoring and fast reaction when defending a price leadership position, which is based on price setting policies and behaviours transferred across borders.

The point made by Sorensen & Wiechmann (1975), that MNCs standardise processes rather than the specific program if they are faced with having to make adaptations, is reflected in the way HDR manage the price and range review process. The process is standardised, but the outcome is a range consisting of different items and offered at different prices adapted to the market in the host country. The process behind these adaptations ensures that range and price are adapted in the same way relative to similar parameters and is controlled by head office. Waldman (1978) identified the tendency of international retailers to exercise more control if the product range is standardised – as could be the case for some private-label products in the case of LIDL and more generally for the non-food promotional range.

Important to note is the dependency of private-label image on store image in general which, in the case of the HDR relying predominantly on private-label as ALDI does, implies that their market penetration is more sensitive to establishing a strong store image fast in new countries. Colla (2003) made the point that discounters are particularly sensitive to the value perception of their products and due to a private-label-dominated range offer, the value perceptions of customers become very sensitive to store brand image.

- Service

Service policies are generally standardised across borders. The high focus within the business model on store productivity implies that store personnel levels are generally very low and the service level in the stores – measured in traditional customer service terms - can be limited. A case in point is that customers are made to use coins to access shopping trolleys and are asked to wheel back the trolley to get their coins back, a practice which in general saves the labour costs of having to reassemble trolleys. Customers pack their own products and loyalty cards do not exist. Looking closer at the merchandising, ready-to-shelf packaging can at times make customers unpack items out of bulk packaging, which is another feature which extends the level of self-service. HDR generally charge customers for the shopping bags to encourage customers to bring their own bags and consequently avoid having to increase the margin to cover the costs of providing shopping bags for free.

- Store location, density and access

Store location criteria are standardised if local legislation permits. The home-market policies are directly transferred to the host markets with similar criteria for access and layout. Local building regulations may call for some modifications of the build standard, and health and safety legislations may demand some adaptations to store layout. The validity and hence density of the store network is dependent on population and catchment requirements and is adapted to the specific market penetration at local level. Store size and the number of car park spaces provided is calculated based on customer count and store sales. Access by car is secured at the planning stage and for some locations contact is made with officials to make specific alterations ensuring a good in- and out-flow of traffic.

- Store ambience/merchandising/layout

HDR store ambience is generally standardised and the store facia forms part of the store branding. Store ambience is functional and, compared to super- or hypermarkets less internal signage is required, as the product range makes it easier to view the assortment. Layout is applied to the local product range mainly based on efficiency criteria, considering efficient handling of ready-to-shelf packaging, a further illustration of process standardisation. The lower priced/narrow range is arranged with the aim of lowering handling costs, which is reflected in a more efficient and space-consuming layout generally adjusting shelf space to sales volume, targeting similar low-frequency refill cycles across a category. The level of efficiency deployed varies amongst HDR, e.g. ALDI uses ready-to-shelf packaging in all categories, even in the chilled range, whereas NETTO would place single SKUs within this range and within some other categories like cosmetics or wine.

- Market Communications

Most HDR exercise a cautious approach to market communications and avoid spending money on advertising. Moesgaard Andersen, & Poulfelt (2006) explain this inconsistency within the discount concept: *"A company pursuing a discount strategy is simply not able to create a discount brand if the company pursues high media spending, for obvious reasons. One is that most consumers simply do not believe that a discount product is cheap if a company has got high media spending."* The authors point to the strong pull effect of the concept and see advertising costs minimised by utilising word-of-mouth and a higher level of consumer identification with the concept, as the value concept directly appeals to consumers and creates an intrinsic attractiveness. In other words, the concept strength 'has to speak for itself'. However, strong local competition might not allow the retailer to generate a strong pull effect and so a potential cultural misalignment might be exploited by competitors who are better aligned with customer needs. This point is supported by several authors (Dow, 2006; Birnik & Bowman, 2007; Schmid & Kotulla, 2011).

The super and hypermarket retailers researched by Waldman (1978), used a higher degree of promotional activity if the retail formula was new to the host country. Retailers diverted from their normal strategies relating to the launch of new ventures, and the channels used tended to be regional or based on in-shop promotions, due to the lack of national coverage or differences in media availability. This ultimately meant that promotional programmes were administered locally. However, the author noted that messages and focus were standardised across countries. This view conflicts with the aforementioned perspective, especially at the time of launch, and considering that the high private-label content would call for more market communications initially. Relative to this, Tai & Pae (2002) note that high foreign consumer familiarity with the brand implies a higher degree of standardisation.

Hultman, Robson, & Katsikeas, (2009) argue that a cost-leadership strategy calls for a standardised approach to market communication. They state that the drive towards standardisation is stronger if marketing programs are coordinated across countries and if the company is operating in many host countries and high product homogeneity prevails. The authors highlight the contingencies involved and that product perception refers to the image the product has in the host country. The coordination of marketing programs in food retail internationalisation might therefore be limited.

2.3.2. STANDARDISING STORE IMAGE

McGoldrick (1995) sees image as a facilitating factor in retail internationalisation. However, home-market image has been established over several years, so how can retailers ensure that their images are indeed facilitating host-market penetration? And what does standardising store image mean? Certainly, it must take a customer perspective, which implies that it must generate a similar impression to the customer in the host market as it does in the home market. Store image transfer is critical to retail internationalisation, as it is the image held by customers which forms the basis for brand equity (Ailawadi & Keller, 2004).

Lindquist (1974) defines store image as the consumer perception of several tangible and intangible elements, which include both physical and psychological dimensions, where the latter is derived out of the actual shopping experience. In an international context, Brown & Burt (1992) suggest that Marks and Spencer retails intangible, experience-based perceptions such as ‘trust’ and ‘safety’ in its domestic market and that the establishment of a similar image in a new environment may therefore take time. But do HDR have the luxury of time to establish an image in the host market? Not really, as their private-label offering is vulnerable to store image strength – as discussed earlier - indicating the facilitating nature of store image as mentioned by McGoldrick (1995). Internalising and integrating single product brands with the store brand creates a distinct and differentiated offer, which is hard to replicate (Moore, 1995), and can add iconic and symbolic value (Alexander & Doherty, 2009). HDRs consequently need to build their image fast in the new market or find ways to bypass the lack of store image during the first period after a launch.

However, Burt & Carralero-Encinas (2000) suggest that total transfer of a standardised image into a host market can be difficult to obtain in the short term. Despite the expectation that the more intangible and experience-related dimensions of store image will take longer to establish, their research showed higher differences in image related to tangible dimensions such as physical characteristics, product range and pricing policy. This may indicate that image and product perception are difficult to predict. Further, Burt & Mavrommatis (2006) argue that *“...rather than aiming to achieve an exact replication (standardization) of its domestic store image abroad, it should aim for a standardized positioning* *strategy"*. The authors here are clearly asking for an 'adapted transfer' of store image contributors to secure a relevant mass-market position as seen from the consumer perspective.

In an analysis of attributes contributing to what makes discount stores cheap, Zielke (2007) shows that customers attribute both positive and negative causes to 'why markets are cheap'. This perception directly affects the way the customer perceives the price/quality equation. Important to note is that customers relate 'cheapness' to negative or positive attributes. In the case of his research these were: inferior quality, unfair relations to employees and suppliers, fair relations to customers, efficiency of the business model and psychological tricks in price communication (Zielke, 2007).

Other researchers explore the self-congruity a store image can portray (Bellenger, Steinberg, & Stanton, 1976). It is argued that if the retailer can generate a store image which is congruent with its target shoppers, then they are likely to succeed in attracting this target group.

2.3.3. STANDARDISING OPERATIONS

The standardisation of the marketing mix is brought about by standardised operation, which is an important element of the cost-leadership strategy as it secures a high level of re-use and cross-country transparency. The transfer of operational methods and procedures can be a source of competitive advantage and is based on the way things are done (Sternquist, 1997; Doherty, 1999). Park & Sternquist (2008) further develop this concept and define transaction-based assets as a 'unique capability', and as the portfolio of unique operational capabilities which support 'how to produce the unique offer'. This includes distinctive management, direct sourcing, superior logistics - the latter relating to efficiency in distribution and inventory management. This will lead to reduced costs of supply. The assets are developed over time by applying the business concept, and by 'learning by doing'. As opposed to physical assets such as stores, equipment or products, such assets are complex and, due to this tacit nature, can be difficult to transfer and consequently difficult to imitate (Park & Sternquist, 2008).

The transfer of systems, procedures and personnel are ways to standardise operations across borders (Waldmann, 1978). The extent to which these instruments are used, and the mix of use will determine the character of standardisation. For instance, Wiechmann (1975) found that companies with a low degree of head office direction often placed more emphasis on establishing attitudes and behaviour patterns in the subsidiaries, which would in turn guide decision making and would instil conformity with head office intentions. This can be perceived as a way to replace more overt forms of head office influence (Waldmann, 1978).

2.3.4. STANDARDISING VALUES, EXPECTATIONS AND CULTURE

Dawson & Mukoyama, (2006, loc. 1097) emphasises the importance of culture/managerial style in internationalising retailing: *"The managerial style is manifest in many features of commerce* *including formula design, customer relationships and customer interactions, knowledge management and transfer, technology responsiveness and possibly even the nature of innovation. We can, therefore, expect the process of retail internationalization to be heavily influenced by the cultural style of the internationalizing firm and the cultural values of managerial structures in the market."* These values, expectations and cultures are already engrained in the design elements of the HDR formula.

It can therefore be difficult to 'untangle' the transfer of the engrained home-market culture which is tacitly transferred in the retail formula, and therefore, consciously remove the 'transfer of culture within'. The high degree of cross-national integration and consequent concept transfer as presented in previous Sections is, in itself, facilitating cultural transfer as noted by Dawson (2007, p. 385): *"In an international context, the product of the retailer is anchored in a specific social, economic and political environment with the implication of considerable cultural inputs into the product design and operation."* The high degree of standardisation combined with a high level of control embodied by the centralised structure, means that corporate values, expectations and culture are transferred into the host country operation. The level of societal embeddedness as shall be discussed in Chapter 3, is instrumental when considering the way the culture is transferred.

Prahalad & Doz (1987) make the ability to adapt to different consumer cultures dependent on organisational capabilities and company culture, which determine the extent to which an organisation can adapt, and which in turn can promote a more globally integrated and/or a locally responsive strategy. The centralised/standardised retailer may not see the establishment of such capabilities to be central to its success as Hurt & Hurt (2005) show in their research of Auchan in Poland. Here the deployment of a strong company culture emphasising centralisation caused a temporal disintegration between head office and country management, which in this case was resolved by loosening the tight centralised grip to reintegrate with the host-market management. The retailer eventually returned to a centralised structure. However, the authors suggest that a higher level of cultural awareness at the launch stage would have supported the cultural transformation process.

That cultural differences also matter between neighbouring countries with seemingly similar cultures, is showcased by O'Grady & Lane (1996) in their research into the differences between Canadian and US business and consumer culture and their effect on business failure. They related lack of awareness amongst executives of these cultural differences to business failure: *"The executive teams of the two companies that failed in the US market perceived there to be no difference between the two markets prior to entry, and based decisions such as staffing, product mix in the stores, store location, store size, and entry mode on this inaccurate perception."*

The apparent complexities here are clear, as it is difficult to draw a line between company, consumer and national cultures and, most importantly, how they influence one another. The internationalising

HDR will tacitly transfer culture cross-border. It is of importance that the company culture does not support a transfer, without considering the impact it has on consumer cultures or on the wider institutional environment and the legitimacy it sources, which is explored in the next Section.

2.4. SUMMARY

The standardisation versus adaptation debate is a long established one in the marketing and management literature and applies equally to the retail sector despite certain unique industry characteristics. Despite the inherent complexities of retailing, pressures for standardisation arise from a desire to benefit from growing market homogeneity and to exploit cost-leadership and first mover advantages reinforced by rapid expansion, as well as a belief that some retailing innovations can shape consumer behaviour, particularly when driven by self-reference criterion justifying a replication of domestic business models. If the rationale for standardisation is accepted, there are implications for how such an approach is implemented with respect to marketing mix elements, store image, store operations and corporate values, behaviours and cultures.

3. THE ADAPTATION ALTERNATIVE

In addition to non-homogeneous market needs, highly centralised HDRs, looking exclusively at the value offer they can provide through their supply driven approaches, may show insufficient appreciation of the local institutional context and this is reflected in the way they respond in various host-market contexts. As Westney (1993) notes, "*MNCs confront a multitude and possibly conflicting pressures*." Scott (2001) also pointing to the norms portrayed by the host country's institutional landscape argues that "*Actors confronting conflicting normative requirements and standards typically find it difficult to take action because conformity to one undermines the normative support of other bodies.*"

These conflicts, for a highly centralised HDR organisation, may manifest themselves in various ways as domestic market institutional forces pre-frame decision making, a process which Scott (2001) would regard as a *"choice among a narrowly defined set of legitimate options determined socially"*. These forces, when confronted by multiple 'new' institutional contexts and being embedded in specific constellations, determine the aggregated influences which act on the HDR. This can cause inter-institutional gaps in understanding and behaviours and result in a lack of legitimacy between the organisation and the wider institutional landscape in the host country. This can lead to the HDR overlooking vital signs of consonance within the institutional sphere of the host country and ignoring, or not understanding, the socio-economic influences on consumer choice of store and\or business behaviours in the market, impeding efforts to embed the business in the host-market environment.

3.1. INSTITUTIONALISATION

Various authors offer different definitions of institutionalisation and views of how it affects decision making. Giddens (1984), discussing the more enduring features of institutional life and their ability to change, argues that institutions exhibit resilience and stresses the sustainability of such institutions: *"Institutions by definition are the more enduring features of social life…giving 'solidity' across time and space."* Scott (2001) extends this even further: *"Institutions exhibit these properties [enduring features] because of the process set in motion by regulative, normative, and cultural-cognitive elements. These elements are the building blocks of institutional structures, providing the elastic fibres that resist change."* Zucker (1977; 1991) supporting this view, further stresses the importance of what she defines as 'micro-foundations', as the power of cognitive beliefs anchors behaviour: *"Social knowledge, once institutionalised, exists as a fact, as part of objective reality, and can be transmitted directly on that basis"*.

Kostova & Roth (2002), stress the impact of organisational history and the time factor in enacting institutionalisation:*" We define an organizational practice as an organization's routine use of knowledge for conducting a particular function that has evolved over time under the influence of the organization's history, people interests, and actions."* Furthermore, Scott (2001), in line with the neo-institutional paradigm, points to the links with evolutionary theory defined by Nelson & Winter (1982) and implicitly to the pressures acting on institutions to adapt to changing environments: *"…..analogous to biology, in which firm's routines are argued to be the equivalent of genes in a plant or an animal……To survive a firm must be able to reproduce and modify its routines in face of changing circumstances…….Their concern is to examine the ways in which competitive processes operate among firms so that those whose routines are best adapted to current conditions flourish whereas those with less adequate routines falter."*

Companies do not make these modifications consciously according to DiMaggio & Powell (1991) who stress the tacit and routine nature of choice in an organisational setting. Others view these routines because of endogenous, experience-based learning taking place over time (Knudsen, 1995 p.203). They essentially develop their own existence and justification as Selznick (1957) points out: *"Institutionalization is a process. It is something that happens to an organization over time, reflecting the organization's own distinctive history, the people who have been in it, the groups it embodies and the vested interests they have created, and the way it has adapted to its environment…."* In his review of institutional theory Scott (2001), referring to Selznick (1957), points out that *"organisations become infused with value, they are no longer regarded as expendable tools; participants want to see that they are preserved. By embodying a distinctive set of values, the organization acquires a character structure, a distinctive identity."*

Building on the three pillars mentioned by Scott (2001), the regulative, the normative and the cognitive, Owens, Palmer, & Zueva-Owens (2013) specifically denote cognitive influences on shared social knowledge and conceptions of reality as controlling interpretations relative to environmental influences for retailers. Whereas the regulative influences refer to explicit rules and regulations which companies must adhere to, normative influences are defined by informally accepted social-cultural norms describing desirable human behaviour. Gersick (1991) notes that this normative domain is part of the 'deep structure' of a country, which is therefore difficult to sense and interpret for an outsider, whereas the cognitive domain might be easier to understand and interpret (Kostova & Zaheer, 1999).

In the context of retail internationalisation institutional-intrinsic cognitive beliefs can, when combined with an inclination to avoid organisational complexity, implicitly lead to a predisposition to standardise. For instance, Oliver (1991) argues: *"Therefore, institutional theory illustrates how the exercise of strategic choice may be pre-empted when organizations are unconscious of, blind to, or otherwise take for granted the institutional processes to which they adhere."* This would equate to the HDR deciding to standardise across borders and to transfer the home-market defined institution into the host country. This may subsequently lead to significant inter-institutional differences between the host organisation institution and the host-market institutional environment. Brunsson (1995) points to the wider implications of the transfer of such standards: *"Standards constitute a particular* *kind of rules: they are explicit, and they are, at least formally, voluntary…. Standards are a kind of general advice directed to many"*. Scott (2001), considering why such a transfer may meet general resistance, points to the intrinsic transfer of culture embodied within an institution:" The *development of standards and standardization processes constitutes a clear instance of institutionalized normative and cultural carriers."* This transfer causes what Kostova (1999) defines as institutional distance:" Institutional *distance is the extent of similarity or dissimilarity between, the regulatory, cognitive and normative institutions of two countries."*

Dacin, Goodstein, & Scott (2002) take this a step further when applied in the context of a strong and hard-driven business concept and argue that this can be perceived as an institutionalised authority with 'transgressive contention' leading to boundary-challenging connections to the institutional environment in the host context. It is consequently central for the MNC acting in a multi-institutional context of retail internationalisation to understand how it perceives various aspects of the institutional context, how it impacts on their choice of internationalisation strategy and if they believe it is vital to conform to institutional pressures or not (Oliver, 1991).

3.2. LEGITIMACY AND ISOMORPHISM

Referring to the cross-border transfer of more or less rigid organisational institutional standards into the host country, prevailing institutional differences can lead to a loss of legitimacy. Legitimacy according to Suchman (1995, p. 574) is defined as: *"a generalized perception or assumption that the action of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions"*. This view is supported by Dacin, Goodstein & Scott (2002) who place legitimacy in a change perspective: *"The creation, transformation, and diffusion of institutions require legitimacy, a condition whereby other alternatives are seen as less appropriate, desirable or viable."*

However, views on legitimacy requirements and whether the MNC should actively seek legitimacy or not are divided, a debate which is linked to the perspective on which factors affect legitimacy in the first place. Kostova & Zaheer (1999), see legitimacy as shaped by:

1. The characteristics of the (host) institutional environment.
2. The organization's characteristic and actions, and
3. The legitimisation process by which the environment builds its perception of the organization.

They argue that complexity in any of the above factors make it more difficult to establish or maintain legitimacy. Kostova & Zaheer (1999) point out that the act of gaining legitimacy is a complex social and cognitive process, which is subject to bounded rationality. This may particularly be the case for the internationalising MNC as both parties may not have the information and the cognitive structures required to relate, understand, interpret, and evaluate each other.

Given this perspective, it is understandable that some internationalising MNCs utilise joint ventures (JVs) as an instrument to gain legitimacy quickly by leaning on JV-partners which are already very embedded and have already gained legitimacy within the host market (Owens, Palmer, & Zueva-Owens, 2013). This leaning-on may be a feasible strategy if bridging wider institutional divides, as is the case in emerging markets, a case in point is the JV between SAMSUNG and TESCO in South Korea (Coe & Lee, 2006; Coe & Lee, 2013).

Scott, Ruef, Mendel, & Caronna (2000, p. 237), pointing to the importance of organisational legitimacy, state: *"Organisations require more than material resources and technical information if they are to survive and thrive in their social environment. They also need social acceptability and credibility."* If institutional distances are significant and allowed to prevail they can affect the legitimacy of the actor in the host country as stated by Kostova & Zaheer (1999), who argue that the greater the distance the more difficult it is to establish and maintain legitimacy.

This is demonstrated by Bianchi & Arnold (2004) in the case of Home Depot in Chile which show that, to obtain legitimacy, conformity to the salient institutional norms of retailing in each country in which a retailer operates is important for success. The case further shows the tendency for successful retailers to lose sight of environmental differences, especially if they assume that their retail formula will work well everywhere. This tendency was also noted by Waldman (1978), who implied that retailers believe so strongly in their capabilities that they seem to be predisposed to ignore the fact that market differences might impact on success. This may be more the case if the institutional differences are significant as was the case for Home Depot in Chile (Bianchi & Arnold, 2004).

Kostova & Zaheer (1999) argue that organizational structures, policies and practices are normally themselves institutionalised and copied from the home external institutional environment. Therefore, in purely domestic firms, internal legitimacy requirements are normally consistent with external legitimacy requirements. This implies that differences in internal and external legitimacy requirements are likely when institutional distance exists as is often the case in retail internationalisation. Kostova & Roth (2002) point to the complexity within the international context and the conflict which may arise when attempting to apply core competencies in another institutional setting:*" Since it is vital for an MNC to achieve and maintain legitimacy in all its environments, it will experience the pressure to adopt local practices and become isomorphic with the local institutional context. At the same time, an important source of competitive advantage for the MNC is the utilization of organizational capabilities worldwide. Thus, MNCs will attempt to leverage practices on a worldwide basis. Hereby lies the tension between the need for global integration, on the one hand, and local adaptation, on the other hand."*

As the transfer of key competencies also includes a transfer of home-cultural behaviour, opinions are divided as to whether legitimacy is worth striving for. Some authors point to the complexity and difficulty of obtaining legitimacy (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Similarly, Westney (1993) notes that complexity can be a major hurdle to attain legitimacy:" In *an MNE, given the multiplicity and variety of institutional environments and the cross-country differences between these environments, achieving legitimacy through isomorphism becomes a difficult, if not impossible, task."* It may be a difficult task to gain legitimacy when negotiating with multiple environments as suggested by some authors (Doz & Prahalad, 1980; Fagre & Wells Jr., 1982; Oliver, 1991). Indeed, Zaheer (1995) suggests that the MNC should try to overcome legitimacy issues by seeking to apply firm-specific organisational practices across borders.

It is, as indicated by Oliver (1991), the way the internationalising MNC perceives the host market which shapes the approach taken, e.g. whether the MNC can exercise control of or otherwise influence the market or whether the MNC may be faced with conflicting demands, either to be isomorphic with the external environment or to conform to internal pressures. This will affect the perception the MNC places on the presumed utility of conformity. Also, the dependency on resources controlled by the institutional environment will affect the utility perceived. Based on these parameters Oliver (1991) has proposed likely legitimacy responses by MNCs. In the case of the HDR, which focuses on efficiency and a desire to maintain central autonomy and minimise external intervention, then the MNC may apply a 'buffering' strategy (Meyer & Rowan, 1983).

Should the HDR local management, for instance, feel trapped by having to conform to host-market isomorphic pressures, but at the same time face internal institutional pressures to maintain a high level of institutional integrity, then the HDR may try to buffer the wider institutional impact (Oliver, 1991). This implies that the HDR can reduce the extent to which it allows external institutions to gain insight into its own institutional settings by detaching itself and maintaining internal integrity and legitimacy, especially if the organisation is highly institutionalised (Meyer & Rowan, 1977; Meyer & Scott, 1983).

If buffering external institutional demands, the HDR may not be able to authorise and acquire legitimacy. Grewal & Dharwadkar (2002) identify various mechanisms to gain/dismiss legitimising pressures from the environment. If buffering the external environment, the HDR may protect itself from isomorphic pressures but at the same time isolate itself from its environment. Being so cost focused, the HDR may be unlikely to want to invest resources and reach out to the local culture. In contrast, as an example of an alternative strategy to gain legitimacy, Lowe & Wrigley (2010) showcase TESCO's activities in the US.

To add even more complexity, the question of whose perception of legitimacy is to be recognised may not be straight-forward to determine, as indicated by Scott (2001): *"There is always the question* *as to whose assessment counts in determining the legitimacy of a set of arrangements. Many structures persist and spread because they are regarded as appropriate by entrenched authorities, even though their legitimacy is challenged by other, less powerful constituencies."* The author, referring to Stinchcombe (1968), notes that the question of whose values define legitimacy is a matter of concerted social power. Further, Dacin, Goodstein, & Scott (2002) point out that governance mechanisms can be subtler and that regulative governance systems are often charged with motivating evasion rather than compliance, e.g. that these influences take effect via cognitive and normative processes.

Seeking to distinguish sources, Suchmann (1995) argued that pragmatic legitimacy can be derived most directly from the exchange and perceived deliveries of the MNC. In the case of the internationalising HDR one must expect that considerable legitimacy should be derived directly from the value offer they deliver to consumers. Owens, Palmer, & Zueva-Owens (2013) support this view and see the immediate consumer value as the main source of legitimacy. However, the authors also point out that legitimacy also needs to be emphasised when dealing with employees, suppliers or partners (Owens, Palmer, & Zueva-Owens, 2013 p.885).

Opposing this view, (Marsden & Friedkin, 1993) recognise that actors have a normal tendency to imitate those organisations with which they have close contact. This implies that deliberate actions to achieve isomorphism may not be required and suggests that one may need to protect the organisation from isomorphism if it is perceived as diluting core competencies.

In the context of retail internationalisation, it is useful to divide sources of legitimacy into internal and external as the MNC organisation consists of spatially divided home and host business units. Westney (1993) sees internal legitimacy as the acceptance and approval of an organizational unit by the other units within the same firm and, primarily, by the parent company. Kostova and Zaheer (1999) point towards the interdependence of internal and external legitimacy:" We *believe that the MNE case illustrates how considerations of internal legitimacy can constrain a sub-unit's efforts to achieve external legitimacy."* And, referring to Kogut (1993), the authors continue: *"Further, the tension between the MNE's internal legitimacy requirements, which are imprinted by the home-country legitimating environment, and the legitimacy requirements of its subunits' host countries is likely to create difficulties for the subunits-difficulties purely domestic firms will not have. However, these challenges to external legitimacy may be moderated by the parent MNE's international orientation – whether geocentric, polycentric, or ethnocentric."* Meyer & Scott (1983, p.202) point out that the legitimacy an institution can attain is negatively affected by the number of different authorities' sovereign over it and by how diverse or inconsistent is their understanding of how it should function.

Researching the tension between organisational integrity and market responsiveness, (Selznick, 1992, p.336) states:" The *challenge is to maintain institutional integrity while taking into account new problems, new forces in the environment, new demands and expectations."* Selznick (1957,1992,1996) suggests ways to avoid these tensions by applying a process of establishing commitments to value and principles, which then act as a basis for establishing normative rationality (Oliver, 1997), legitimises organisational choice and sustains the integrity of an organisation (Paine, 1994; Selznick, 1992).

A theme related to legitimacy and the argument above is labelled by Zaheer (1995) as the *"Liability of Foreignness"* (LOF), which encompasses elements of the retail concept or HDR behaviour which are perceived as being foreign – assuming that the HDR refuses to seek legitimacy as it applies extreme cost consciousness. The liability of foreignness can be overcome if companies focus on their key competencies, especially if they have administrative heritage to nurture isomorphism and if their main source of firm-specific advantage is grounded in organisational capabilities (Bartlett and Ghoshal, 1989). Characterising LOF van Ittersum & Wong (2010) have researched levels of nationalistic attitudes, which become tangible in the way consumers support locally manufactured products, and in particular food products.

3.3. EMBEDDEDNESS

That individuals do not make their decisions in isolation, but as part of a group or an organisation, and consequently are bounded by that group/organisation has been discussed above. Veblen (1909) for instance ridiculed the assumption of individual choice behaviour when stating: *"Not only is the individual's conduct edged about and directed by his habitual relations to his fellows in the group, but these relations, being of an institutional character, vary as the institutional scene varies."* He draws our attention to the belonging of these individuals within their network of relationships and the dependence on how these networks are shaped and modified.

The embeddedness theme attempts to shed more light on the importance of managing these networks and how the international retailer is rooted, and according to Wilkinson (1997) is built on the foundation that *"economic activity is socially constructed and maintained and historically determined by individual and collective action expressed through organizations and institutions."* As Heidenreich (2012) points out, the MNC has a choice to make, e.g. it can *"opt for both 'footloose', global strategies in order to exploit the advantage of a cross-border, value-creating network and 'embedded' strategies to avoid the liability of being an outsider."*

While researchers tend to focus on how the national institutional context affect MNCs, this research will focus more on how embeddedness affects key actors and decision making.

3.3.1. CONCEPTUALISING EMBEDDEDNESS

Embeddedness has been defined by Heidenreich (2012) as: *"Embeddedness refers to the social, cultural, political, and cognitive structuration of decisions in economic contexts. It points to the indissoluble connection of the actor with his or her social surrounding"*. Hess (2004), addressing the requirement to become embedded in the local context, states: *"Globalisation, then, is obviously not a process of disembedding based on mere market transaction and impersonal trust, but rather a process of transnational (and thereby translocal) network building or embedding, creating and maintaining personal relationships of trust at various, interrelated geographical scales"*. Further, Hess (2004) distinguishes between three different types of embeddedness, i.e. the ways in which social relationships guide economic activity:

- Societal embeddedness: *"Signifies the importance of where an actor comes from, considering the societal background or 'genetic code', influencing and shaping the action of individuals and collective actors within their respective societies and outside it."*
- Network embeddedness:" Describes *the network of actors a person or organization is involved in, i.e., the structure of relationships among a set of individuals and organizations regardless of their country of origin or local anchoring in particular places."*
- Territorial embeddedness:" Considers *the extent to which an actor is 'anchored' in particular territories or places. Economic actors become embedded there in the sense that they absorb, and in some cases become constrained by, the economic activities and social dynamics that already exist in those places."*

Burt, Johansson, & Dawson (2015) point to the main but not exclusive processes these three classes of embeddedness support for the retailer: *"process of transfer in societal embeddedness, negotiation in network embeddedness and adaption in territorial embeddedness."*

Wrigley, Coe, & Currah (2005) argue that what distinguishes retail MNCs is the exceptionally high levels of territorial embeddedness that must be achieved in host countries to obtain organisational legitimacy in these markets. The dimensions identified as forming part of securing this legitimacy are:

1. A high response to local variations in cultural tastes, norms and preferences.
2. Sensitivity to property markets and land use planning systems in host countries.
3. Building a strong relationship with the local supply base.

Douglas & Craig (2011) note that local competition not only benefits from having substantial knowledge of operating in the market and a solid understanding of local customer attitudes, preferences and behaviour, but also from local knowledge of market conditions and contacts with local distributors and agents. In essence, these 'domestic' businesses are societally embedded within the territory.

A case in point is TESCO in South Korea, where TESCO made a late market entry in partnership with SAMSUNG (Coe & Wrigley, 2007). This partnership enabled TESCO to operate in a much more territorially embedded style (Coe & Lee, 2006). This meant that TESCO could penetrate the market faster and so accounted for its success in the market. Caves (1971) states: *"The foreign enterprise has to pay dearly for what the native has acquired at no cost to the firm (because it was part of the entrepreneur's general education) or can acquire more cheaply (because, as it were, the native knows where to look)."* CARREFOUR, by comparison, was eager to apply its standardised business concept to the market. However, it faced difficulties in achieving significant market penetration and eventually exited the market (Coe & Wrigley, 2007). In this case it becomes clear how critical the ability to adapt to a market can be and how closely this ability is linked to the level of territorial embeddedness, especially if an equally strong international retailer with the capability to expand rapidly chooses to enter the market.

This further emphasises the effect of learning on different kinds of embeddedness in order to achieve either a high degree of territorial and network embeddedness in the host country, as in the case of TESCO in South Korea, and, in contrast, the effect of a primary focus on societal embeddedness between the subsidiary and head office, as in the case of CARREFOUR, supports a drive towards a more standardised retail formula.

The issue of territorial embeddedness may seem particularly relevant in emerging markets, where cultural and socio-economic conditions can be very different. However, the case of failing Canadian companies in the US market indicates that a lack of territorial embeddedness in host markets and an associated 'distance' from local conditions can lead to potential failure, even when entering neighbouring developed countries.

A case demonstrating how the process of territorial embeddedness can be accelerated is TESCO's entry with Fresh & Easy in the US (Lowe & Wrigley, 2010) using what the authors describe as transference, splicing and enhanced imitation. They argue that international retailers are challenged by *"a volatile mixture of resistance to multinational-retail-induced shifts in local consumption cultures and the political influence of incumbent groups."*

Opposing this general pro-embeddedness perspective, Heidenreich (2012) addresses the conflicting need to exploit globalisation and localisation simultaneously, and the difficulties MNCs face in their attempts to balance network influences to align their impact on the requirements for the MNC to simultaneously exercise control (integration) and flexibility (local responsiveness). Heidenreich (2012) refers to bringing-together various narratives rather than a merger of multiple narratives, to emphasise that seeking embeddedness is an *"unending process of mutually aligning these multiple narratives that constitutes the core challenge of coordination and 'control' for the MNC."* Therefore, managing corporate embeddedness cannot only be an act of embedding but must also be a question of embedding to the right level or extent at any given time, and may subsequently include the act of disembedding out of the local context to align closer with the MNC.

Despite the ability to utilise local input as a source of knowledge creation and adaptation (Andersson, Björkman, & Forsgren, 2005; Taggart & Hood, 1999; Burt, Johansson, & Dawson, 2015), the process of aligning local input with corporate policies may be very lengthy and costly. Geppert & Williams, (2006, p.64) researching the integration processes of MNC, point to the power struggle which can be caused by extending local embeddedness: *"The greater the social embeddedness of the local subsidiary in a highly integrated business system, the greater the power of local subsidiaries to influence the implementation of global management practices."*

Burt, Johansson, & Dawson (2015) also suggest that the scope for general and deeper territorial embeddedness in the host country may be constrained by strong societal linkages when transferring the MNC's value proposition, e.g. pointing to the conflict of transferring home-market definitions and seeking local influence simultaneously. This may indicate that the MNC which believes in transferring a strong value proposition, will not be concerned with seeking territorial embeddedness.

One may clearly have to distinguish the motives behind wanting to embed territorially. For example, the MNC can seek to embed to gain legitimacy or as an input for adapting its store offer. A company believing it is transferring a very strong value proposition may not see the need to territorially embed to gain legitimacy as it would think that the value proposition itself would generate sufficient legitimacy.

However, embeddedness remains a diffuse concept (Jones, 2008) and there is no clear guidance as to how to apply it successfully. The overall effect it has on the retailer's ability to utilise its core competencies is unclear, specifically in the context of HDR. One may assume that the level of embeddedness in the host environment and the consequent pressure to be isomorphic and gain legitimacy within this environment can potentially dilute the value proposition it brings to a new market and therefore dilute and weaken the impact an innovative concept can have. Also, as the HDR is very cost conscious, one would expect that it avoids territorially embedding beyond what would be termed as a minimum, e.g. what is demanded by the requirement to adhere to local law and legislations.

3.4. ADAPTIVE CAPABILITIES

According to Jonsson & Elg (2006) the ability to adapt builds on market, internationalisation and corporate knowledge. Referring to IKEA's launch in Russia, the authors point to the vital role of expatriates in transferring the retail formula, and that the expatriates were often experienced in international expansion. Furthermore, IKEA showed a willingness from the start to adapt to the Russian market. However, it gained market insights by becoming territorially embedded in the host market as a second movement, after having established the core of their retailing concept first (Jonsson & Elg, 2006).

The ability to apply a clear concept to internationalisation as performed by IKEA in Russia typically needs to be established over a longer period. The internationalising retailer would normally approach internationalisation in stages. Jonsson & Foss (2011) have identified a 3-stage model to internationalisation:

- Stage 1: Explorative internationalisation: trial and error, limited concept.
- Stage 2: Exploitative replication: clear concept, standardised focusing on exploiting economies of scale.
- Stage 3: Flexible replication

Looking closer at the contextual requirements stemming out of being at different stages of internationalisation, one can identify competencies required at different stages (Dawson & Mukoyama, 2006). Particularly contrasting the early entry-stage with upstream stages may contrast inter-contextual priorities between home- and host-pressures, which the internationalising retailer must manage simultaneously. The differences are illustrated in Table 3-1.

Table 3-1: Stage differences of priorities (adapted from Dawson and Mukoyama (2006)

	Stabilisation phase	Control and Domination phase
Dynamics	•Uncertainty in formats, formula and markets •High rate of formula innovation and high degree of operational flexibility •Fluctuation in demand •Low volume of sales •Formula functionality more important than brand name •Erratic competitive actions •Test relationship with suppliers	•Strong pressure on margins •Retail brand product development specific to market •Obsolescence of earlier assets •New competition from many directions •Increase of channel power •Convergence of product, formula and process innovations
Priorities	•Development of formula •Understanding customer •Acquiring knowledge (tacit and explicit) from competition •Establishing the right format	•Cost control focus •Branding of formula •Brand development •Extend power over suppliers

The capability to adapt, to redefine and change interpretations of the retail formula when crossing borders may consequently not be seen as a core activity for retailers applying a standardised/centralised concept, as the HDR may have passed the stabilisation phase in the home market, which is also noted by Park & Sternquist (2008). The high degree of intra-market replication generic to the business model may mean that the HDR institution has refined its operation within the home-market context and removed its ability to adapt the retail concept here. Bearing in mind the global approach, this would not allow for deeper redefinitions of the retail formula centrally, despite this being a vital requirement to stabilise the situation in the host context.

For instance, realising that *"MNCs are relentless in their attempt to maintain their tested business model. MNCs will be impatient with diversity that seems to call into question the core of their effectiveness and drive towards integration, in other words, reproduce their home spaces – they remain strongly ethnocentric."*, Hurt & Hurt (2005) suggest that MNCs should plan for more adaptations and apply what they refer to as 'discretionary transfer' in their retail practices allowing for a rebuild of retail models. The important point is that local inventiveness and experimentation close to the market is stifled when a programme is burdened with too many standards (Kashani, 1989) and the ability to adapt and even innovate at the local level is driven out of the organisation. The established homogeneity opposes the development of diversity.

Clark (1985) researching innovation in an evolutionary context further highlights that the degree of development of an industry and the derived business concept relates to what he refers to as 'design hierarchy' and signifies the degree of establishment within the business. Transferring this concept to retail internationalisation, one can equate moving up or down the design hierarchy to moving from home to host market, e.g. shifting between the same retail formula at different development stages. The business will be at a higher development stage at home than in the host market, assuming that the development in the host market will move along the same path as at home.

A similar perspective can be recognised in the 'flexible replication' stage outlined by Jonsson & Foss (2011). The understanding of the core business is classified into a hierarchical set-up allowing for differentiated and flexible adaptations performed at local business level (concept in practice), while other elements (idea concept) of the retail formulae are standardised across national boundaries. The description of the value proposition made by the founder plays an important role in enabling the retail formulae to be transferred constitutionally and not as operationally defined procedures established at a later stage.

The key question seems to be the level of flexibility which is present at central level to reiterate the value proposition and the role it takes in re-establishing the retail concept in the host market. The capability to adapt seems connected to the value proposition of the MNC. Moreover, the retailer may need to be aware of how it 'burdens' the host countries with their standardised retail formula, e.g. which societally institutionalised behaviours engrained in the formula within the home market, may cause conflicts when transferred and may require adaptations in response to cultural differences. The statement made by Bianchi & Arnold (2004): *"Managers that participate in the internationalisation* *process should be able to perceive, understand and incorporate country differences in the internationalisation strategy"* emphasises this sensitivity towards cultural differences and ultimately the need to be territorially embedded.

Sorenson and Wiechmann (1975) highlighted that mechanisms for making decisions on the degree of adaptation are lacking and recommended companies to engage in the development of such mechanisms. These stresses the importance of taking a process perspective and developing the efficacy needed to support adaptation. The aforementioned case of TESCO in South Korea and more specifically the reaction of CARREFOUR (Coe & Wrigley, 2007), indicates that adaptation is often an afterthought for companies which apply a standardised/centralised strategy. They basically only adapt when faced with acute problems in applying a standardised approach.

The view presented by Dawson (2007): *"Policy, in the short term, may be more concerned with the aspect of transfer of consumer values and of some aspects of retail technique than it is about the transfer of the capability to adapt but for the impact in the longer term of international retailers the transfer of the firm's culture and of the capability to adapt may be of greater significance"* may be a good prediction of the change of focus required. Retail know-how and technology is easily dispersed across borders and does not offer similar sources for sustained competitive advantage compared to culture and the capability to adapt.

Planning for how elements of the transferred institution will be perceived in the host market demands market input. A generic element of the global/centralised HDR prohibiting this input is the highly centralised decision-making structure. Here market distance of the key actors means that head office does not have first-hand market impressions, and local management does not have the ability to influence the global strategy (Kashani, 1989). The fine-tuning of company positioning demands input on the country-specific and unique characteristics of consumption and competition.

Market responses are not only absent in decision making but have in addition to be translated into relevant adaptations. The organisation must have the capability to relate market differences to the design of the retail formula and understand the effects these changes have on the value proposition of the cost leadership strategy. This point is highlighted by Venkatraman & Camillus (1984) as they stress that strategy is not just a question of adapting the marketing strategy to external factors but can and should address complex organisational problems as well. The task of adapting is not simply performed by recognising that you should adapt, but this may be a required starting point.

Consequently, simply pointing to 'uncontested and deep' territorial embeddedness, as being instrumental to bring about host-market adaptation as portrayed by Lowe & Wrigley (2010), may not be the answer for the HDR if decisions are made centrally. The capability to adapt may not just depend upon strong territorial embeddedness but be a product of institutional history as well. The question then becomes whether the organisation has these capabilities at a central level and the organisational will to deploy these capabilities. A case in point here is the entry of Seven Eleven in China (Yahagi & Kar, 2009), where the company was very competent in adapting to the Chinese market, given that it had already adapted to the Japanese market. The HDR needs to lean on the adaptive capability it may find at central level due to its centralised setup and the requirement to sustain a high level of global integration.

Considering adaptation in a multi-market set-up, the capability to adapt seen from this perspective becomes multi-faceted in that the HDR must attend to various host markets, at local level and centrally. The interplay can be illustrated through the ability to make pricing fit local market needs. The process on how best to do this is standardised across markets, transferring know-how from one market to the next, thus allowing for adaptation with a standardised approach.

3.5. STRUCTURAL PARADOX AND GLOCALISATION

Aoyama (2007) is intrigued that leading retail MNCs struggle to utilise transferable advantages and points to the requirement and difficulties of retailers in reconsidering retail norms whilst being embedded and standing under the influence of a specific context and social setting. Aoyama (2007) suggests that high levels of territorial and network embeddedness in the host market may not only require deeper and more challenging changes, as they directly go against the rationale of scale economies, but that they may indeed counteract the objectives of the internationalising MNC seeking integration and ultimately challenge corporate identity. CARREFOUR and WAL-MART were 'blindly' copying their retail norms and values, here referring to their attempt to transfer their EDLP-pricing policy, despite market insights clearly indicating that this was insensitive (Aoyama, 2007 p.478). Based on the authoritative stance expatriates took in the case of WAL-MART, one can only assume that the willingness to seek this information was too vague (Aoyama, 2007 p.482).

Pointing to the required trade-off between the ability to apply core strengths whilst meeting local customer needs, Aoyama (2007, p.473) sees this struggle as part of the unresolvable 'Structural Paradox' as "*the balance between their objective in enforcing standardization (at the supra-national level) and the need to conduct localization (at the sub-national level) to ensure customer acquisition."* Chuang, Donegan, Ganon, & Wei (2011), researching the same retailers' entry into China, refer to similar balancing problems, and draw parallels to the launch of WAL-MART and CARREFOUR in Japan. In contrast, the case of SAMSUNG-TESCO in South Korea demonstrates that such 'balancing' can be attained successfully pointing at the strong local component gained in this JV (Coe & Lee, 2006; Coe & Lee, 2013) enabling the blending of local and global.

The 'Glocalisation' concept, first used by Robertson (1994), and defined as a *"process depicted on a continuum between two extremes, that is, globalization and localization"* resembles the same concept, but emphasises the co-presence of both qualities simultaneously as opposed to categorising them as a trade-off (Chinomona & Sibanda, 2013). Matusitz & Reyers (2010) see glocalisation not only as an answer to balancing globalisation against localisation, but as the retailer's reaction to *"counteracting forces and increasing diversification, emphasising the emerging particularism of international products, brands, philosophies and services."*

Opposing the glocalisation theme, the case of WAL-MART and CARREFOUR in Japan demonstrates for instance how standardisation of store space was prioritised higher than aligning the store frontage with consumer needs despite differences in Japanese shopping habits – a clear indication that CARREFOUR, motivated by fulfilling standardisation forces, was unable to attend to differences in consumption cultures (Aoyama, 2007). The case furthermore shows that MNCs are likely to overlook dependencies on particular environmental settings and how they affect the functioning of the transferred retail concept, by over-estimating their own strength and relevance in the host market, which is probably indicative of a focus on their home-market experiences. The Japanese case contrasts highly with the approach taken by the same retailers a few years later as indicated by Matusitz & Leanza (2009): WAL-MART seems to have learned a lesson from the Japanese and German experience and is giving greater consideration to local consumer cultures in China.

The development of the approaches portrayed in the cases of CARREFOUR and WAL-MART (Matusitz & Leanza, 2009; Matusitz & Forrester, 2009) indicates that their internationalisation approaches have become more consumer-focused than at the outset. In other words, they have developed considerable adaptive competencies, not least given the input gained from their multiple failures.

In addition to pointing to adaptations of the store offer, Chinomona & Sibanda (2013) view the decentralised approach executed by CARREFOUR in Taiwan as instrumental in applying a more localised approach. Store managers were heavily involved in range choice. Using decentralisation/centralisation seems instrumental to adjusting the blend of localisation/integration, as this measure was also used in the first years after the launch in China (Zhang & Wei, 2015).

Ultimately, glocalisation of the front end of the retail operation depends on the balancing capabilities of the MNC, affecting the alignment of particular marketing mix elements with local consumption as indicated by Chinomona & Sibanda (2013) and also evident in the case of WAL-MART and CARREFOUR in China (Chuang, Donegan, Ganon, & Wei, 2011). Referring back to Section 2.4.1., one can only assume that WAL-MART and CARREFOUR in Japan and China have been or are still struggling with making the required adaptations to market conditions. In particular, the supply situation seems different, not allowing them to execute direct supplies to stores from their own logistics set-up (Chuang, Donegan, Ganon, & Wei, 2011). This will obviously affect how aggressive they can be in pricing at the front end of the operation.

Despite the changes of approach visible, one needs to address the question of whether the MNCs above really have sufficient adaptive capabilities: WAL-MART and CARREFOUR seem to have been surprised by market differences both in Japan and China. Returning to the question raised at the outset by Aoyama (2007) related to why these leading global retailers fail to transfer their competitive advantage abroad: it may be that their dominant and home-market influenced institutions are still all about standardisation and not enough attention is paid to adapting. This may in particular have been the case in the early years of international expansion, where domestic-led efficiency perspectives dominated strategic perspectives in the host markets.

To conclude this discussion of adaptive capabilities, the author returns to the definition offered by Jonsson & Elg (2006), who see the ability to adapt as being derived from market, internationalisation and corporate knowledge. Based on a multi-market context, and the discussion related to the impact of the transfer of home-market-derived capabilities, the definition of the 'ability to adapt' used in this thesis, is understood as the ability of the HDR to translate trans-contextual differences into adaptations in the retail formula and the transferred HDR institution. With reference to Section 2.2.1 and Section 3.2, and the discussion around market homogeneity and legitimacy, and the stages presented in this Section, adaptive capabilities must enable the HDR to deal with core trans-contextual differences in dimensions such as:

- Consumer cultures & competition
- Inter-stage differences & competencies
- Legitimacy sources, including domestic success & brand strength

This capability becomes the blending skills part of what the author understands as the Glocalisation concept. This is the capability to deliver a blend of standardisation and adaptation which generates the highest global profitability, assuming an optimal availability of standardisation and adaptation capabilities within the HDR. It is clearly a dynamic and flexible concept, multi-facetted and, most importantly, also process-oriented, as some trans-contextual dimensions are independent of a trans-national agenda and situational in character. The glocalisation capabilities need to predict the impact local adaptations (leading to added sales contribution) have on global integration (including the costs of added diversity).

Subsequently, overcoming the structural paradox will, in the context of this research, be perceived as an integral part of generating glocalisation capabilities. The paradox, seen from a process/stage perspective, can be understood as 'applying too much structure too early', and/or as 'not being able to re-deploy' the retail formula, as the stabilisation stage is simply bypassed or at best performed half-heartedly.

3.6. SUMMARY

The perspectives delivered by institutionalisation and the embeddedness theme add important dimensions into the standardisation versus adaptation debate. The former draws attention to the 'shadows' home-market-derived institutional character and capability cast over host markets. The latter signifies how actors, and organisations, remain influenced by who they interact with, decisions are not made in isolation, and the overall embeddedness the HDR faces, is influencing its inclination to standardise or adapt. This in turn will influence how isomorphic the HDR can be and if it needs to make use of buffering as a way of deflecting the pressures to adapt placed upon it in the host context. The Structural Paradox and the capability to adapt emphasise the flexibility needed within a multi-market context. Finally, this Chapter proposes three trans-contextual dimensions which likely are at the centre when deploying glocalisation to retail internationalisation.

3.7. IMPLICATIONS FOR HDR INTERNATIONALISATION

The discussion presented in Chapter 2 indicated how contestable the standardisation thesis is, especially in the context of food retail internationalisation. The argument for standardisation is strong for attaining a global low-cost operation in HDR which is closely linked to the need to attain economies of scale across markets and the reuse of utilities and competencies. This, in the context of hard discount food retailing, is closely tied up with building scale through fast market growth and standardisation. Profitability is related to establishing a significant infrastructure to generate scale and substantial market coverage. However, despite these strong arguments for standardisation, the facilities required locally present a substantial investment, so host-country utilisation becomes a crucial cost factor. This emphasis on local utilisation is unique for retail internationalisation and implies that success will not just depend on speed but also on market penetration, e.g. the demand for market fit and for attaining a mass-market position locally, realising that local scale and use of operational structure is vital for the attainment of a cost-leadership position.

Reaching a mass-market position in the host market is consequently important. It draws attention to the discussion around market homogeneity and requires added attention in the case of food retail internationalisation, as the consumer culture-dependence and the re-creation of assets in the host country, imply that the attainment of market fit cannot be ignored, despite a degree of cross-border homogeneity and the possibility of having to consider the shaping of consumer demand. Therefore, the ability to recognise and adapt to significant market differences – benchmarked against the same capability developed by indigenous HDR – emerges as an important strategic competency. This need to adapt is elevated by recent developments as some HDR, in particular LIDL and, most recently, ALDI SOUTH, seek to re-position mid-market to offer a more consumer-oriented marketing mix.

The high dependence on replication to apply an EDLC concept, as is the case for the internationalising HDR, remains non-contestable. It becomes increasingly important to consider when and where replication needs to be established to gain efficiencies. It is no longer a ‘grand-stance’. Much of the replication within HDR is generated at store or RDC level; it standardises within a market, but this may not imply that the retail formula needs to be standardised across borders. The fact that scale economies have to be driven predominantly by host-market sales and in-market efficiencies, and that ‘production’ has to be re-established completely in the case of food retail internationalisation, is a significant difference from manufacturing where the utilisation of assets across borders is extended. This implies that the sources of cost-leadership are much more dependent on host-market volumes only, and the use of the utility established there. In the context of internationalising HDR one can emphasise that - as the effects of cross-border standardisation may impair in-market sales and as the costs of cross-border adaptation are relatively small compared to the significant investments made in new assets - the internationalising HDR needs to be sensitive to the effect of applying the best blend of standardisation and adaptation as the marginal costs of adapting are low.

The perspective of balancing the costs of adapting against the added costs of introducing diversity aimed at achieving the highest profit rate globally, is the strategy of choice and can be labelled as the ‘homo economicus’ embodied in the glocalisation perspective for transferring an HDR concept. The emphasis is on delivering the highest contribution from store sales, taking into account the total global costs of adaptation. This perspective calls for significant sensitivity to trans-contextual differences in order to secure vital adaptations, blended with the utility-reuse driven integrative approach delivering standardisations embodied in the strategic trajectory in Figure 3-1. The strategic trajectory, with reference to the model, comprises the present influences of the historic and societal ballast embodied in the adaptive and replicative capabilities blended by glocalising. The deployment of a balanced perspective would clearly be based upon the presence of both capabilities, those driving replication, and those needed to adapt, in addition to glocalisation for any blending to become attainable.

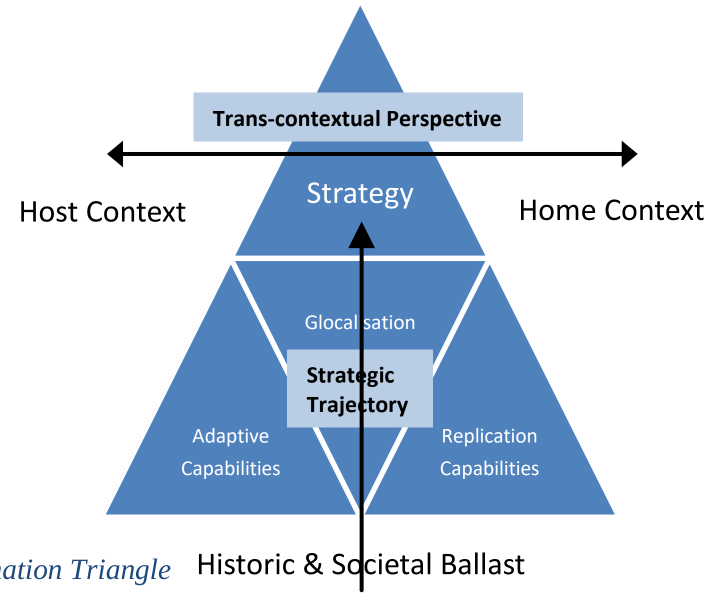

Figure 3-1: Transformation Triangle

The ‘character difference’ of approach engrained in this debate can best be illustrated when contrasting the above blending view with the perspective derived from Brandes & Brandes (2011), who approach HDR internationalisation from an absolute EDLC perspective. This is based upon minimising overall costs globally, through an HDR international strategy, that is all about applying asceticism and frugality and not at all about blending perspectives, and which will lead to a focus upon the value of speed and the ability to attain a dominant market position through standardisation. This is a view which clearly corresponds with Levitt (1983) and the arguments presented in Chapter 2 in general. This perspective opposes the approach of ‘proactively adapting’ and seeking a blend between standardisation and adaptation. The ‘maximise replication’ theme (MaxRep) essentially supports the arguments for standardisation as in ‘replicate as much as possible’ and attempts to ignore market differences. MaxRep only adapts reactively and suppresses the need for adaptation, minimising the costs of becoming sensitive to trans-contextual differences and adapting the retail formula. The main emphasis of MaxRep is to re-use existing competencies across borders, aiming to use the same operational procedures and reuse the utilities established in the home market as much as possible. It is consequently focused predominantly on total cost minimisation without paying attention to adaptation and the impact on sales/market penetration of the same, and essentially it encompasses the ethos of the ‘truly global retailer’.

Bearing in mind that this global approach has grown out of a single-home-market context, MaxRep can also be understood as an evolved, institutionalised and learned approach. It is inclined to channel and focus the strategic outlook as the HDR increases the level of dedication, and simultaneously narrows down what Burgelman (1983) defines as strategic context. As it narrows down its foci, it risks de-contextualising the strategic outlook. Another way to de-contextualise trans-contextual differences is by portraying the retail formula as being ‘universally applicable’ and ‘strong’ as it meets basic ‘global’ consumer needs. In this way MaxRep attempts to cognitively detach the business concept from contextual influences. This view emphasises the need to look closer at the structure and routines of the HDR institution established at home prior to internationalising, and how MaxRep as a strategic trajectory deals with the trans-contextual international context.

It is assumed that the HDR is pre-occupied with a home-market focus on EDLC prior to engaging in international expansion that will impact on the strategic trajectory, which is derived out of the structure at home and has evolved to support the replication strategy. Given the institutionalised character already established prior to moving cross-border, which plays a fundamental role in pre-disposing the decision to standardise rather than to adapt, one will need to consider the historic ballast that the HDR carries. Having possibly reproduced itself in its home market repeatedly, and having experienced rapid growth, this affirms that replication is a main ingredient of being successful. Operational procedures, organisational norms and cognitive beliefs have, prior to internationalising, had years of becoming more specific, more dedicated and more imprinted in the structure, resulting in a more systemic and consistent retail formula that allows for a strong market push. The same qualities make it easy to transfer the retail formula, and the HDR institution, but also difficult to change them. The build-up of MaxRep resembles much of the structural dedication affecting the determination of the strategic context, but at the risk of strait-jacketing the general capability to adapt as outlined by Burgelman (2002).

Part of applying MaxRep and making the retail formula and the institution as resistant to market differences as possible, would be to offer customers only a shallow range of essential products. The store interior is also mostly simple and neutral, offering one specifically designed retail formula globally, again resisting becoming overly augmented in any specific market. The organisation can therefore minimise reacting to or seeking significant market input. The HDR institution then becomes an organisation with fast replication capabilities, which dominate the strategic trajectory and suppresses adaptive capabilities. Applying home-made policies and culture ensure that decisions are made by one authority centrally, and are subsequently executed by all countries, to facilitate internal global integrity, which is a prerequisite to executing a global strategy.

The resistance embodied in MaxRep is in direct contrast with the latest movements by HDR, which call for a blend or 'mingling', as noted by Weinswig (2015). This blending, important for successfully re-positioning the HDR, and identified in Figure 3.1 as glocalisation, will simply not happen without the presence of adaptive capabilities.

It is not entirely surprising that adaptive capabilities are often underdeveloped, as Schmid and Kotulla's (2010) critique of the research on standardisation demonstrates. They show that the current level of understanding about how to deploy adaptation remains fragmentary and even contradictory. In other words, it justifies the above mentioned 'ignorance' because the adaptation of retail internationalisation - despite extensive research on many dimensions - remains complex and unpredictable. In particular, applying glocalisation and seeking a blend would imply that one would be able to define costs of adaptation and the trade-off in standardisation if the HDR was to proactively blend one element with the other. If the HDR has only limited capabilities to adapt they may be more likely to perceive the task as complicated and questionable, and the inability to deploy an obvious alternative may be likely to reinforce a decision to apply MaxRep. Looking back at Section 2.2.4, one can see how head office assumptions about how much the market can be shaped are affected by the home-market context and the bounded rationalities drawn out of this context, where the HDR is successful and well established. The HDR may be inclined to turn a blind eye to the trans-contextual impact.

Applying the embeddedness theme to global retailing, the transfer of the retail formula and HDR institution is secured by creating strong ties with the central home-based institution maximising the historic & societal influence on the host organisation. The characteristics of the ties to the home market become an important feature, expected to exercise a strong influence on the transfer of the HDR institution into the host market (Burt, Johansson, & Dawson, 2015). The underlying assumptions and the approach are shaped by the societal embeddedness of key actors in home-market institutions and are constantly refuelled as the actors remain embedded centrally in the HDR institution. They may apply the home-market logic in the host context even if the context is objectively different. The global/centralised nature of the HDR is expected to contribute to this feature, as network embeddedness creates a strong tie between the home and host organisations, through actors who are societally embedded in the central HDR institution. These actors exercise a high degree of influence on the host-market strategy while staying societally embedded centrally. This would be a deliberate feature as it secures the transfer i.e. standardisation of the concept across borders. However, the same feature can also lead to the transfer of unwanted behaviours to the host market. This may be particularly critical when societal embeddedness spans across regions where trans-contextual differences are expected to be very different, as when the HDR concept is introduced into emerging markets.

Despite having the intention to de-contextualise the transferred retail formula and institution, given that a home-market institutionalised HDR concept is being transferred across borders and sustained via societal and network linkages, and therefore remaining institutionally embedded in the home market, it can be expected that this institution will carry norms and values which are congruent with the home market. Consequently, it will have substantial difficulties in becoming isomorphic within the host-market environment, as the ties back home present a very strong anchor point.

As indicated in Figure 3-1 above, this may in turn be a motive for the internationalising HDR to avoid, or at least, limit the territorial and network embeddedness, which it could otherwise seek in the host market. Isomorphic pressures may arise which may cause legitimacy issues, especially if the HDR wants to apply MaxRep, avoid excessive local exposure and has only very limited adaptive capabilities at central level. The embeddedness constellation, e.g. level of societal and network linkages to the home country delivering transfer, combined with possibly limited host-market influence determined by limited network and territorial embeddedness, is expected to become part of the MaxRep paradigm. However, this simultaneously deprives the HDR of local market input and of attaining legitimacy via isomorphism.

On the other hand, weak embeddedness within the central societal & historic ballast, combined with strong local attachment may jeopardise the transfer of core elements of the retail formula and lead to ‘overexposure’ to local trans-contextual differences. The retail concept transfer becomes vulnerable to being deflected by isomorphic pressures, leading to adaptations which may challenge the integrity of the retail formula and the dedication of the concept or otherwise weaken the impact it would have had. Here lies the seemingly unresolvable contradiction in retail internationalisation.

Seen from a legitimising perspective, the network constellation is critical in enabling the HDR to become more congruent with the host-market context. If the HDR is to apply MaxRep, e.g. choosing to ignore the host-market context, it seems destined to cause inter-institutional conflicts: it carries home-market defined behaviour standardised across borders, bounded by strong ties to the home institution and sheltered against isomorphic pressures by keeping the host institutional environment at a distance. The concept of buffering may be used to cope with this institutional divide. However, the legitimacy issues will remain.

Moreover, the HDR will potentially have to deal with a legitimacy gap between home and host market, where it is likely to lean on the legitimacy it has obtained in the home context – motivated by maintaining a global strategy. The result may be that activities running across borders into the host country will potentially be undermined by a lack of legitimacy. In other words, one would expect that the sources of legitimacy available to the HDR to be different in the host versus the home context and leaning onto sources available in the home market only leaves the HDR susceptible to over-stretching its legitimacy foundation in the host market.

Buffering isomorphic pressures when simultaneously being confronted with legitimacy issues can itself be problematic and may affect consumer loyalty, meaning that, taking the local situation into account, legitimacy may need to be managed differently if not to affect the exposure to market failure even further.

Revisiting adaptive capabilities resulting from applying the MaxRep theme, one can argue whether these capabilities could really have been developed in the home-market context prior to internationalising, given that standardisation worked well in a single-market context. This implies that these capabilities would have developed when the HDR institution had already been established for several decades in the home market in the case of ALDI. Further, the multi-country structure and the global stance deployed only allows for common, and therefore the lowest level, of adaptations, e.g. adaptations which are needed in all countries. These are showcased in Chapter 2 as the emerging deployment of adaptations framed by the MaxRep theme, for example the marketing mix elements, product range content and pricing. One may perceive these as obvious adaptations but, nonetheless, these are made within the context of an HDR applying a global strategy, emphasising that the adaptations are made in all countries as they are required in all host markets.

Within this framework, the HDR would not want to adapt to individual local contextual requirements. This implies that the level of adaptation relative to a specific market will not be dependent on how different the specific host market is and how strong the need to adapt here might be but will be a question of whether the same adaptation presents a global requirement to secure implementation. The process is consequently collective, slow and lengthy for obvious reasons and can be an obstacle for the individual host country needing to adapt to local needs fast.

Given the above complexity of adapting to local needs, the inherent insensitivity to trans-contextual differences and the limited local ties based on the desire to limit isomorphic pressures, this explains why the HDR deliberately turns a blind eye to gaining local input as it aims to limit its adaptive capabilities. The organisation will consequently be unable to establish strategic flexibility as outlined by Jonsson & Foss (2011) under the theme of 'Flexible Replication'.

Looking back at Section 3.5 and in particular at the level of adaptation which has been undertaken by WAL-MART glocalising in China, then this contrasts with the weight placed on adaptations and the way adaptations are performed within the MaxRep theme presented above. WAL-MART pays less attention to if the changes are detrimental to the level of integration, but instead focuses on making WAL-MART resonate with consumer behaviour in China. The retailer demonstrates considerable sensitivity to local consumer needs and the way it merchandises the products in store.

The glocalisation concept presented by Matusitz and Leanza (2009) seems to offer a working conflation of standardisation and adaptation. The case does not answer the question of how much integration WAL-MART has 'divested' in adapting to the Chinese market, however, measured by the front-end success, one can assume that it is much better positioned to apply pressures on their suppliers to deliver a consistent retail formula.

Central to all of this, is understanding what instigates the building of adaptive capabilities which, given the context, is extremely difficult for three reasons: firstly, it goes entirely against the grain of the EDLC concept. Secondly, it needs to be placed at central level despite possibly being less needed in the home country, and thirdly, the distance to local consumer cultures, given that the HDR buffers any market input, is considerable. So, the urgency of adapting is filtered and possibly rejected by the make-up of the institution HDR.

To use Heidenreich (2012) on the retailer's ability to balance and build adaptive capabilities: *"These retailers shape the perception of organizational challenges, of the best or most appropriate organizational strategies and of the available resources. Faced with the uncertainty of economic life and the manifold coordination problems associated with innovation processes, companies tend to turn for guidance and orientation to established rules, social norms, practices and shared understanding"* indicating that it might be a question if the retailer does what it should objectively do or what it can actually do given that it has become the institution it is.

4. RESEARCH METHODOLOGY

The aim of this thesis is to explore the standardised (MaxRep) approach to the international transfer of the Hard Discount Retailer (HDR) business model. It is essential to establish how the standardised transfer of the retail formula comes about, in order to consider how standardisation is enacted in the transfer of the HDR, and how the way of transferring is affecting, and is affected by, trans-contextual differences.

To achieve this, first the MaxRep approach is showcased, through applying contemporary theories on standardisation and adaptation as discussed in Chapters 2 and 3, across three cases. This provides an understanding of the deployment of MaxRep in different contexts. This is the main focus of Chapter 5, which considers how standardisation is embedded in the host-market context and through a standardised approach. Secondly, as the HDR has developed a strong strategic trajectory, which has grown out of a single-context home market, it has established a dominant, emergent way to perceive and deal with that home context. The strategic trajectory evolves out of how this historic narrative is presented and is further developed in parts of Chapter 6.

The juxtaposition of these two perspectives enables this research to identify important host-contextual dimensions as they impact on the HDR transfer, and couple these to the specific characteristics of the MaxRep approach derived out of the home-context, seeking to define the trans-contextual dimensions in full. This is performed in Chapter 6, which applies the MaxRep perspectives of 'out of home context' and 'into host-contexts' (out of a single-market into multiple markets) as this reflects the realities of HDR internationalisation.

The research is based on three Cases (labelled as A, B, C). The case briefs in Section 5.1 outline the cases in more detail. However, as the trans-contextual character of these cases is central to this study, it is important to identify the different stages of case establishment/development and institutional environment.

- Case A is the most established, showcasing the transfer of the ALDI HDR from Germany to Denmark. The retail formula was defined in Germany during the early 1960s and transferred to Denmark in the early 1980s. The Case itself covers the time period 2001 to 2007.
- Cases B and C are start-ups of HDR in the Middle East, modelled after ALDI/LIDL, but without any direct involvement of a head office as in Case A. However, the key actors in the case were employed on the basis of their familiarity with the concept and had been employed by ALDI or LIDL for long periods. These cases document a standardised transfer of HDR into emerging markets, in 2007/2008 for Case B, and 2013/14 for Case C. Also, the close relationship with host-market organisations in both Case B and Case C exposes the HDR to the local territories.

The post-mortem nature of this research, and the direct involvement of the researcher as a participative observer, has a number of implications for the methodology:

- The research question, the starting-point, is pre-conceived as the author has been inspired to carry out this research by participating in the cases; he was intrigued by the incapability of the HDR to adapt better to the requirements of the host market. Appendix I gives a more detailed descriptions of the reflections and motivation of the author to engage in this research. The lack of market fit and the inability to accommodate host market requirements is most significantly exposed in Cases B and C, where no head office is prescribing a strategy to follow the launch of the HDR in the host country.
- The author had a specific position in these cases which affects his perspective. However, as the position varies in the cases, it also generates a multi-locational perspective. In general, however, the author, being a critical observer of MaxRep, is attempting to apply a transparent approach as well as exposing his own perspective in the alternative glocalisation approach used as a hypothetical benchmark in this research. This approach to dealing with the author's bias is discussed in more detail in Section 4.2.4.
- The main research questions are empirically motivated, see Section 3.6, so that potentially relevant theories are brought to the cases. The cases were not selected to support or reject specific theories.
- Events could not be manipulated by the researcher, with the aim of serving particular outcomes, as they mainly took place before the research questions were formulated. Only Case C took place during the research process.

This research also documents a personal HDR internationalisation 'learning curve' for the author, having been highly engaged in all three cases. The author gained an increasing awareness of and sensitivity to issues involved in HDR internationalisation as outlined in the author's reflections on this research in Appendix I. This experience was established parallel with the research and over the time period 2001 to 2017. This culminates and becomes most notable in Case C. This journey starts with 18-month hands-on HDR-concept training in the home-context ALDI, in Germany in 2001, and is ongoing with the writing of this thesis.

4.1. THE CASE STUDY APPROACH

Referring back to the general characteristic of this research, the dimensions which in particular affect the general layout and choice of methodology and methods are:

- Given the high trans-contextual dependency and complexity of the content, and the need to expose the development and application of MaxRep in a real-life context, the case study is utilised as the preferred methodological approach (Yin, 2009).

- Due to the central influence of bounded rationality, it is a must that a participative research approach is used to *"bring into consciousness hidden social forces and structure"* (Scotland, 2012). The author, being a participative observing researcher, contributes by making close observations of actual behaviour in a real-life context. However, this can simultaneously cause a number of problems, by possibly producing a specific bias, given the actual spatial position of the author, or by influencing the researcher to take a subjective or particular point of view (Yin, 2009). These influences will be discussed in more depth in Section 4.2.
- Viewing the three cases as single 'parallel' cases aids the exploration of the 'standardised transfer of HDR' across all cases and in different host contexts. Intervening with relevant contemporary retail internationalisation theories, and in particular the standardisation and adaptation pressures outlined in Chapter 2 and 3, cross-case similarities/differences can be explored in order to qualify how MaxRep interacts with trans-contextual differences. This is the main purpose of Chapter 5.
- Simultaneously, examining the three cases as one 'sequence', perceiving Case A as the mother case and Cases B and C as embedded within the mother case, provides a historic and longitudinal perspective to the research, exposing the establishment & sustainability of the strategic trajectory and the temporal trans-contextual dimensions. As participants are involved in several cases over time, this longitudinal perspective aids the exploration of how their specific societal embeddedness characteristics influence strategic decision making upstream. In particular, this approach elevates the capability of individuals to deal with trans-contextual stage differences.

Even though case study research is a widely accepted research method, it is less utilised in the field of international business, than one would expect based on the suitability of the method. This may be due to its multi-disciplinary approach, the difficulties in building theory and the challenge of evaluating qualitative research (Yin, 2009). Burgelman (2011), for instance, points to the bridging qualities of case study research and sees the methodology as being under-utilised. However, case study research has clear advantages as noted by Yin (2009, p.635), which given the contextual element of this research, increases its suitability:

- *"The case study method allows investigators to retain the holistic and meaningful characteristic of real-life events - such us individual life cycles, small group behaviour, organisational and managerial processes…."*, which is relevant to the research of internationalising HDR.
- *"Investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident"*, which, with

reference to the boundaries relative to the embeddedness of the HDR, is clearly the case, as these boundaries are difficult to define.

- *"Copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as a result relies on multiple sources of evidence, with data needing to converge in a triangulation fashion, and as another result, benefits from the prior development of theoretical propositions to guide data collection and analysis"*, which with reference to Section 3.7 is outlined in the transformation triangle (Figure 3.1), triangulation being integrated as the researcher takes multiple perspectives.
- *"Histories can, of course, be done about contemporary events; in this situation, the method begins to overlap with that of a case study."*, and *"The case study relies on many of the same techniques as a history, but it adds two sources of evidence not usually included in the historian's repertoire: direct observation of the events being studied, and interviews of the persons involved in the events.*" Direct observations are used predominantly, interviews being 'replaced' by the participative role of the author.

The case study approach is also supported by Palmer, Owens, & De Kervenoael (2010) who point out that the case method is appropriate for *"unravelling and revealing the concomitant interweaving of issues and strategists"* and due to its *"intricacy and detailed nature"* requires a participant observer approach (Lee, 1999). Case studies therefore generate an in-depth description and consider a number of different dimensions (Elg, Ghauri, & Tarnovskaya, 2008; Yin, 2009; Stake, 1995) providing an approach which Van de Ven (2007) terms *"engaged scholarship"*.

This case research has the advantage of being able to apply several perspectives to the same phenomenon, and in this way blend theoretical perspectives into a more comprehensive standpoint out of a juxtaposition aiding a new explanation of the phenomenon being researched (Doz, 2011). With reference to the longitudinal approach required to expose the development of the strategic trajectory MaxRep, Burgelman (2011) points to the usefulness of qualitative research combining historic methods with grounded theorising and notes that this methodology can *"fill the gap between historical narratives and reductionist quantitative research"*. He also makes a number of recommendations which are relevant for studies, as this *"that require an ecological view of reality and are characterized by complexity and nonlinear causation"*.

4.1.1. CASE TYPOLOGY AND CONCEPT

The central role of seeking causes in context in this research implies that the methodological choice needs to integrate the context into the causal explanation in what Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki (2011) typify as *"contextual explanation"*. With reference to this typology, the researcher acknowledges that there are both deductive and inductive elements in the research, however, it is the causal explanation which is at the core of the research and the understanding of the *"causal dynamics of a particular setting"* which allows *"theorising as a local explanation"* (Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2011). This research is aimed at refining, verifying and testing theories around the structural paradox concept, and standardisation and adaptation in general, the main aim being to explain, in context, what motivates the internationalising HDR to standardise and/or adapt, the author expects contextual influences not just to be considerable but to be essential. It is expected that applying a holistic perspective will add insights, in that 'standardisation across context' will have to consider both the home and host context, where there has been a tendency in the past just to consider the host context. This research is in particular exploring what it means to apply standardisation or adaptation out of the home context. Both perspectives are subjectively loaded with context, referring to 'MaxRep applied to the host contexts' as opposed to 'MaxRep developed by the home context'.

To ensure that the former effect of the application of MaxRep is captured inductively, it is necessary to assess how contemporary theory resonates with the issues evolving out of the application. This is completed in Chapter 5, which is essentially inductive and interprets theory, resulting in the identification of common cross-case trans-contextual dimensions. The identification of the trans-contextual dimensions and how they interact with the MaxRep approach is, as Scotland (2012) would phrase it, 'grounded' in the case evidence. Burgelman (2011), makes a number of recommendations when applying grounded theorising, which will be followed in this research.

It is important that theoretical preconceptions are avoided. Inputs from the literature should be resisted until the main problem has been understood properly and has been defined. Owing to the post-mortem nature of this study, the researcher, prior to engaging with academic theories, had an extensive relationship with actual issues in the cases, which are formulated in Chapter 1 prior to engaging with academic theories. Hereafter, the general theoretical foundations are established in Chapters 2 and 3, which intervene with the cases in Chapter 5, to explore the application of MaxRep in different contexts, *"from the inside out, so to speak"* (Burgelman, 2011). This prevents early conclusions being drawn and helps the exploration of unexpected characteristics or findings. The specific principles recommended by Burgelman (2011) and deployed in this research are:

a) **Constant comparison, joint coding and analysis, and theoretical sampling:** Constantly seeking an interaction of theory with the cases - applying the theory across and between the cases to explore patterns, differences and similarities, to utilise the applicability of contemporary theories in explaining these similarities as well as the differences.
b) **Capitalising on quantitative data:** Using graphs and event-counting, categorising groups and using visuals to make perspectives more tangible. Categorisation and conceptualisations are used to visualise concepts, the main concept being the transformation triangle (Figure 3.1). Tables are used in conclusion in Chapter 6.

c) **Distinguishing substantive from formal grounded theory:** By not trying to generate a formal theory, but rather a substantive one, with an emphasis on the linkage to the phenomenon and the theory linking to it. Thus, the author resists the temptation to make propositions in Section 3.7, which would then have to be proven in the cases - this approach would lead to a deductive approach rather than keeping an open-minded to search for explanations in context.

Burgelman (2011) also points out that grounded theory *"often relies mostly on cross-sectional comparative analysis of cases without much explicit concern for the longitudinal dimension."* This is the approach taken in particular in Chapter 5, which relies on a comparative study without much concern for the historical/evolutionary perspective, which is added later in Chapter 6. Here the case brief outlined in Section 5.1.1 is extended to document the historic evolution which establishes the MaxRep trajectory in Section 6.1 and 6.2.

4.2. QUALITY OF CASE STUDY RESEARCH

The quality of case study research relates to four dimensions according to Yin (2009): construct validity, internal validity, external validity and reliability. This initial quality discussion will consider the impact of having explored MaxRep across three cases and the application of concept of triangulation to this research. The bias of the researcher - being very central to sourcing the input to the research - is discussed in a separate section, whereafter it is debated how generalisable this research can be.

4.2.1. VALIDITY AND RELIABILITY

Construct validity is determined by the choice of measures and their application related to the core construct in this thesis, e.g. the operationalisation of the central concepts of 'trans-contextual differences' and the 'strategic trajectory' in particular. It further emphasises the need to use as many sources of evidence as possible, which, related to the former, is to a certain extent augmented when applying the same concept, MaxRep, to three different cases representing very different contexts.

However, this research would certainly have gained from having had more access to interviewees within Aldi, Germany, allowing for vital input from their central organisation. Despite having been working for the company for six years, the author was only able to get access to one ex-member of the Board of Directors in Aldi, who was enagegd as consultant in Case C. The transcription of this interview is enclosed in Appendix II. Due to highly restrictive policies within Aldi, existing employees are simply unable to participate in any research.

As the researcher is participating in all three cases, and as his input is central to case validity, this aids closeness to the events in context, but at the same time limits the sources somewhat. However, as the author has been engaged in the cases over long perods of time, the author has had the opportunity to engage in what Clark (1998, 2007) terms 'close dialogue', which *"relies 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 p.73). Given the nature and sensitivity of the content, this position of the researcher carries clear advantages in this case. However, it also recognises the danger of the research becoming subjective as she/he has an interest in a specific outcome of the research and this can result in a bias. In the opinion of the researcher, this position is required in order to embrace context and give a holistic account of the cases.

Triangulation, referring to applying several perspectives and methods, is clearly utilised in this research to aid validity (Yin, 2009). The use of a multi-case set-up, applying the cross-case analysis to the 'standardised transfer of HDR' from different perspectives/contexts, and additionally applying an evolutionary perpective over time, will add validity to the research. The latter provides a clear chain of evidence in Chapter 6.

Internal validity will in this way be generated when looking for matching patterns matching between the cases, and building explanations by deploying the theories covered in the earlier chapters. Summarising and displaying results in tables and figures provides a holistic overview to keep track of the emergent logic.

Due to the post-mortem nature of the research, the author has not been able to establish a case study protocol. However, concept development is to some extend documented and core research notes have been kept for review.

4.2.2. MULTI-CASE STUDY APPROACH

Applying a single concept across several cases allows for an embedded perspective to expose temporal issues, e.g. stage evolution, which appears as differences in a cross-case analysis. The evolutionary/longitudinal perspective is needed for identifying contextual differences, relating to a start-up – mid-life – mature situation, and in respect of the cross case approach this aids:

- <u>Same approach – similar outcome</u>: the ability to test "literal replication", (Stake, 1995), namely predicting similar results due to strong corporate embeddedness, as the transfer is strong and complete, implies that core elements of the retail formula are completely and quickly transferred and aligned similarly relative to trans-contextual differences, e.g. applying a standardised concept and adapting to trans-contextual differences simultaneously might cause a dilemma.
- <u>Same approach – different context/variation in outcome</u>: Testing 'theoretical replication', (Stake, 1995), to explore contrasting results for predictable reasons, e.g. ignoring differences in countries where the differences are more significant will cause a more severe reaction. As trans-contextual settings are predicted to be different, so the reactions are expected to differ

when applying MaxRep, and the ability to transcend or deal with these differences is central to this research.

The multi-case study approach provides the opportunity to explore responses to various trans-contextual differences and observe the effects it has on performance. The cross-case comparison exposes the application of the MaxRep approach and the responses are expected to be dependent on different contextual characteristics.

The embedded multi-case perspective explores the same concept at different stages by taking a longitudinal perspective. The role of the societally embedded actors is explored by taking this perspective and inter-stage differences are expected to become visible, in that the trans-contextual impact is expected to be more significant when the stages are more distant/different. The question can be addressed if MaxRep deals with trans-contextual differences appropriately.

Combining the cross-case perspective with a longitudinal/evolutionary perspective is expected to expose trans-contextual differences and their impact. For instance, the stage the launch has attained in the specific contexts - Case A being mature/mid-life whereas Case B/C are early start-ups - is expected to demand a different approach and focus. Trans-contextual differences are expected to be wider in Case B/C relative to Case A with respect to this dimension. However, this may vary when looking at consumption cultures or other dimensions. The ties to head office, and the resulting embeddedness, are expected to play a central role in the transfer of the HDR retail concept and the strength of MaxRep.

4.2.3. GENERALISATION

Case studies in general rely on analytic generalisation (Yin, 2009). However, due to the particularities of context involved, this might be moderate to low. Given the context-dependence, and the fact that the trans-contextual dimensions relevant for this research are integrated into theory-building, generalisation will lean towards the definition of the scope of the research. Causal explanations make reference to the conditions under which they are valid (Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2011), e.g. the context similarity determines to what extent it can be transferred. However, the general concept, applied possibly with different trans-contextual dimensions and with a different character and strength of strategic trajectory, should be relevant to retail internationalisation in general.

4.2.4. AUTHOR BIAS AND POSITION

For participative observing researchers, Van De Ven (2007) points to the importance of establishing transparency around the researcher’s potential subjectivity in a *“Participative frame of reference”*. Scotland (2012) goes a bit deeper, requesting references to their value-system and agenda. From a self-critical perspective, the following parameters may impact on the perspectives taken by the researcher:

- The researcher was in the main case located in the host market and was at the 'receiving end' of the MaxRep approach in Case A. However, this perspective was extended when having to take a home-market perspective in Case B, upholding the MaxRep approach against considerable resistance, and can subsequently be perceived as being more blended in Case C.
- Being unsuccessful in applying MaxRep in Case A, the author has exhibited some bias towards providing evidence that glocalisation is part of a required change of approach. This viewpoint was the main motivation for doing this research and sets the agenda for the research approach and outcome. See Appendix I for further details behind the author's motives and position.
- The researcher has a background in product development. This may trigger the researcher to be sensitive towards the need to make products, e.g. retail formulae, fit to market requirements. Referring to Chandler (1962), this would mean that the researcher is sub-consciously a proponent of the "Structure follows Strategy" view.

These biases are part of the societal embeddedness of the participating observer. Contrasting his own bias with that, for instance, of participant CA in Case C, who held a central role at ALDI's head office in Germany, aids the researcher's understanding of the impact of societal embeddedness in this research. This is especially evident in the impact these perspectives had in Case C in upholding the strategic trajectory. The differences of perspective between the societally embedded actors is expected to mirror the differences in their societal exposure and affect the rationality to standardise or adapt.

Accepting the bias of the researcher, it is noted by Yin (2009, loc.3032) that it is important to engage in an opposing hypothesis to counteract the effect of this bias. To this effect, the glocalisation approach has been added as a hypothetical alternative approach, which enables the researcher to openly point to an alternative internationalisation strategy. The researcher, and the reader, can benchmark the MaxRep approach against this alternative in order not just to prove a point, but also to clearly identify the strength of the MaxRep approach. The counter-position is exposed in that the advantages of MaxRep were arguably not fully exploited.

Finally, it should also be noted that the author has considerable expertise within the field being researched, having held various senior executive positions in the retail industry, and having had access to documentation and archival records which, owing to confidentiality issues, cannot be disclosed in this research.

4.3. SUMMARY

This Chapter has outlined the methodological approach and research design underpinning this study. A cross case approach is taken with three cases, each representing a different stage in the strategic development of the internationalisation of the HDR concept and representing different host-market contexts. The rationale for the case approach is provided and the issues of validity, reliability and generalisability are discussed. Finally, but importantly, the role of the author as a participative observer is explained and due recognition is given to the potential bias this perspective may bring and the factors that mitigate against this.

5. THE CASES

The three cases, ALDI in Denmark (Case A), TSC in Oman (Case B) and Dukan in Saudi Arabia (Case C) represent different contextual settings. The latter two are examples of an HDR start-up, compared to Case A which showcases ALDI's long-standing operation in Denmark after about 25 years in the market. Cases B and C are also different in that the start-ups were directly embedded within an existing organisation in the host country, which raises a further requirement: the need to successfully embed the HDR concept and business model within the host organisation as well as the host country.

The cases will be presented chronologically as they portray the 'learning curve' experienced by the author, with the development of his own know-how and understanding related to HDR internationalisation and enabling the author to reflect on the competencies required to successfully place HDR internationally.

After a brief introduction to each of the cases, six central themes will be presented across the three cases to allow for a direct comparison of issues relative to the varying contextual dependencies. The themes are drawn from the literature, particularly the discussion in Chapter 3. The starting-point will be the maximisation theme as it sets the scene in terms of 'pure' cross-border standardisation and illustrates how it is applied and deployed. The six themes to be explored are:

- Maximising Replication (MaxRep)
- The Role of Societal Embeddedness
- Institutionalisation
- Network and Territorial Embeddedness
- Isomorphism and Legitimacy
- Competency to Adapt

Although the themes are presented as six distinct topics there is overlap between the themes.

5.1. CASE INTRODUCTION

The case introduction gives a brief review of the history of each company and, given the stages the HDR had obtained and the methodology applied, Case A Aldi Denmark encounters more history than the other two start-ups in Case B and C and is explored in more detail. The brief for Case A will therefore be longer and introduce a multi-national setting, whereas Case B and C showcase start-up attempts, as for both TSC and SFG - the host companies within which the HDR concept is 'implanted' – the HDR concept constitutes a completely new venture.

5.1.1. CASE A ALDI DENMARK

Role of the author: MD/CEO, ALDI Holding, Denmark

Time period: Feb. 2001 to Jan. 2007

Returning from the second world war in 1946, the Albrecht brothers took over the traditional grocery store run by their parents in Essen. From the beginning of the 1950s the brothers opened more stores. Supply was limited, and scarcity was driving consumers towards a price-driven approach to retailing, e.g. selling a limited assortment of daily food items. The discount retail formula was established in the 1950s and the first stores named ALDI (Albrecht Discount) were opened in 1960. Later the Albrecht brothers split the company into ALDI NORD and ALDI SÜD focusing on north and south Germany respectively. The 1970s saw many competitors establishing discount store copies, and by 1974 more than 50 competing brands were active in Germany, most of which were unsuccessful (PlanetRetail, 2006).

The founders of ALDI realised early that selling cheap carried the risk of being perceived as a low-quality store. Karl Albrecht, co-founder of ALDI, stated in 1953 that "*What has to be reached is that the customer gains the belief of not being able to buy cheaper anywhere else. Once this is reached, he will accept everything.*" He also recognised that it was fundamental for discounters in particular to counteract the tendency to be labelled as a "cheap" store (PlanetRetail, 2006). More than 50 years later psychologist Stephan Grunwald from the Institute Rheingold commented on ALDI's success and the effects of trust-building combined with the limited range provided by the discounter: *"You do not need to concern yourself with what to pick…….I can save myself the hassle of constant price comparisons. The customers are just convinced to shop cheap and good – regardless if they pick from the top or bottom shelf. And one does not have to choose from 200 different brands of toothpaste."* (Spiegel ONLINE, Seith, 28.07.2010, translated by author). The rigour, continuity and consistency with which ALDI applied the HDR retail formula, combining low cost and quality in an all-encompassing way, is what sets ALDI apart from other discount retailers in Germany (PlanetRetail, 2006).

ALDI attained this trust without spending nearly as much on advertisements as the competition. In one of his few public statements in 1953 Karl Albrecht commented: *"Our advertisement is our low pricing"* (Spiegel ONLINE, Amann & Tietz, 03.08.2010). By the late 1990s ALDI had obtained an almost cult-like status in Germany, songs had been written about the company and web-pages were produced to inform and discuss various non-food offerings sold by ALDI. The company had established a leading brand in Germany, and which stood equally as strong as BMW, Coca Cola or McDonalds (Handelsblatt ONLINE, 31.01.2001). In a survey carried out by the market research institute Link (Frankfurt) in 2005, ALDI ranked number one for quality of service (PlanetRetail, 2006), suggesting that the service level ALDI offered customers; fast, carefree and low cost, had become widely accepted within Germany. The German magazine Der Spiegel (Spiegel ONLINE, Amann & Tietz, 03.08.2010, translated by author) wrote: *"The Germans have developed a symbiotic* *relationship with ALDI, which has worked more perfectly than in any other country in the world: the citizenship of sensible customers has got the grocery store they deserve."*

- <u>Organisational culture development and efficiency</u>

Driven by rapid growth in Germany, particularly during the 1960s and 1970s, and after the split of the company into north and south, ALDI NORD quickly built size and efficiency into the retail formula. It built almost identical regional distribution centres, applied basically the same procedures across the company. ALDI Einkauf GmbH & Co OHG, a subsidiary of the regional ALDI companies, was assigned to central purchasing and hosted administration of systems and IT. A further two companies were established to deal with the purchasing of land and building of company owned stores.

Deploying a regional structure could be perceived as a means of allowing each legal unit to run their operation in their own way, but the structure was mainly chosen by Theo Albrecht to avoid publicising financial results and attracting unnecessary attention to the high earnings of the company (Fedtke, 2012). A company-wide competency network, combined with the deployment of frequent comparisons of similar KPIs across the organisation, secured a very homogeneous operation. The companies were given specific tasks, like store layout, which one company had to develop on behalf of all regions. In this way, not only did ALDI secure a highly standardised operation, but development costs were minimised. As a side effect ALDI ensured that the application of new developments was performed by the operational units themselves, without adding organisational functional units at the central level.

The owners of ALDI, not without reason, were anxious that the range remained very limited. It was clearly seen as the foundation of company success. In the mid-1990s ALDI had about 1000-1800 SKUs, some of which consisted of mixed boxes with 2 or more products. REWE, Germany's largest retail chain measured by turnover, listed 20 to 40,000 items per store. The turnover of REWE was €40bn, somewhat higher than ALDI with €26bn. However, the turnover at ALDI per SKU was €14m compared to €0.6m at REWE, i.e. 24 times higher (Brandes & Brandes, 2011).

Next to product range concentration, the ALDI culture is seen by Brandes & Brandes (2011) as the main foundation of the success of the company. Applied asceticism was the main driver behind the low-cost operation: *"Asceticism in the sense of doing-without is, we believe, the most important core characteristic of ALDI, and Theo Albrecht once said: People live more on what they do not eat."* This was the guiding corporate value and prohibited the expansion of organisational complexity. Consequently, ALDI never deployed any quality or marketing departments, nor did it install any matrix-like organisational structure for in-store operation.

That the founders of ALDI set the cultural norms in a consistent way added substantial integrity to the company. Dieter Brandes, (Brandes & Brandes, 2011), who worked with Theo Albrecht for 10 years, commented on the founder: *"Theo Albrecht is known as someone who turns off the light when he enters a room to save on electricity, if - in his opinion - there is enough light without it. This is a small but, so to speak, illuminating example, one which wouldn't have any effect if he and others did not behave in exactly the same way in other, similar situations"* and *"Modesty at ALDI goes hand-in-hand with frugality and extreme cost-consciousness. This is expressed both in very specific employee instructions, as well as in the on-going effort to avoid any unnecessary costs at all levels."*

The sharing of best-practice across the organisation generated a very efficient and homogeneous operation, which was further manifested by a very firm culture: *"Agendas and control programs reflect the "cultural requirements" at ALDI to a large extent. But this is also due to the fact that cost consciousness is always a practical, topical item as part of the company culture. Perhaps this is even typical for culture: it happens and is important, non-stop, every day: In the end there is no control more effective than a distinctive, homogeneous corporate culture. If the general direction is right, the details can be entrusted to decentralized self-organisation. Time-consuming coordination and control systems can be dropped."* (Brandes & Brandes, 2011)

Fedtke (2012), a former Managing Director of a distribution company based at the central office in Essen, points out how efficiency was executed in daily processes and work patterns, and deeply engrained in the company psyche. This was secured by applying comprehensive control mechanisms orchestrated by the executive board. Consisting of 4 to 5 self-employed 'employees', this group was not embedded in either the central nor decentralised structure (Fedtke, 2012). The author describes the role of the board as an all-empowered and tight central top management team (Fedtke, 2012, translated by author): *"ALDI was to commit publicly to its leadership style, a rigorous all-inclusive right to intervene, with an above everything floating executive board; it has impressively proven itself. Success legitimises. It is legitimate to pile up billions by way of deploying a traditional authoritarian business concept where the board behaves like the Lords of the Manor. Striking representations and interpretations 'à la Harzburg'", the leadership concept promoting delegation of substantial responsibilities, does not take anything away from the exclusive empowerment of the operational executive board."*

However, Fedtke (2012), looking back at the late 1970s, points to dysfunctional tendencies within the control culture deployed in ALDI at the time. Disagreeing somewhat with Brandes, he points to the effects of the Board taking penalty payments from Managing Directors for not conforming to company standards or using the wrong words in meetings, a practice which ultimately led to management communicating in gestures and mime at meetings when board members were present. The 'deviations from the rules' which gave rise to these fines were symbolic of the detailed level of management expected even at Director level: a meeting minute which could have been printed on one page instead of two; a wrong word in an advertised job description; the wrong order in an alphabetic list of board members on a letter head, late hand-in of monthly figures etc. This detailed execution, combined with the frequently executed "functional" audits, an instrument used from the top to the shop floor, were illustrative of the to-the-point execution in ALDI. Fedtke (2012), referring to the use of the Harzburger Model, comments on the control measures: *"The ALDI-Function controls are a prime example of end-to-end totalitarian leadership, which was sailing under false colours. The Harzburger Model essentially means decentralisation of ownership and not simply executing demands, e.g. passive duty management by the Managing Directors in their regional companies."* (translated by author). Looking back on these events Fedtke (2012), in reviewing the impact of this control culture, notes: *"ALDI NORD was unable to relieve itself from these order spirits, which it had called for. The board did not sense [the dilemma they faced]: an unsuccessful balancing act between propagated leadership and paternalistic control management."*

The high level of control and prescribed operational standards reinforced through these measures penetrated deeply throughout the company down to store level. The controls exercised at store level again and again led to disputes with the unions (Brandes & Brandes, 2011), and, in some cases, to very critical accusations against ALDI, such as a book, published by Andreas Straub, criticising operational practices (Straub, 2012).

Relationships with the wider institutional context in Germany somewhat contrasted with the strength the brand had obtained. Public appearances by the founders were very rare and public statements dated back to those made by Karl Albrecht in 1953 (Fedtke, 2012). The author sees the motives behind this level of secrecy developed by ALDI in the early years as being driven by the need to secure the competitive advantage the company had gained from being the inventor of the discount retailing formula. After Theo Albrecht was taken hostage in 1971 for 17 days, the family retreated even further from the public gaze (Amann & Tietz, Spiegel ONLINE 03.08.2010). Company executives were often reminded not to appear publicly or to give interviews to the press, the extent of which is documented in detail by Fedtke (2012). Brandes & Brandes (2011), elaborating on the 'closed' public stance of ALDI, points out that public appearances were not valued within the organisation, as they did not conform to the levels of efficiency demanded by the company culture.

ALDI had tried to avoid the influence of the unions. However, in contrast to ALDI SÜD, which had kept the unions out altogether, ALDI NORD had been forced to accept union representatives at regional company level. The founders of ALDI also tried to avoid publicising the financial results of the company in order not to attract more attention from the competition or public in general, and, as noted earlier, adjusted its legal set-up to avoid German publication laws (Fedtke, 2012).

This secrecy and uneasiness towards the general institutional environment in Germany provides a somewhat contradictory picture: the brand strength and generally high penetration within the market on one side and, on the other, the unwillingness of ALDI to establish normal relationships with the wider institutional landscape in Germany on the other. Der Spiegel (Spiegel Online, Amann & Tietz, 03.08.2010) emphasising this conflict, wrote*:*

“The "ALDIzation" of the world didn't just generate jobs and cheap food. It also entailed uniformity, an efficiency mania and anonymity that manifested itself in ALDI's no-name products.

ALDIzation also meant putting pressure on suppliers, occasional public scandals about alleged exploitation in the Third World, a suspicious attitude towards trade unions and unshakeable faith in the power of the market in all areas of life – from discount airlines to discount burials.

An "ALDI-ized" society must regularly ask itself whether it wants to stick a price tag on everything. And it will eventually have to answer the question whether cheapness is the be all and end all. The company embodies a conflict that is in all of us. We all want the T-shirt for €3 ($4), but we're appalled when we find out that children in Bangladesh have to toil away to produce it that cheaply.”

It is important to recognise that ALDI had developed some highly institutionalised habits stemming out of the successful operation on the home front. ALDI established itself in Germany with a new concept and became the inventor of the hard discount format. The company experienced incredible growth, became market leaders and one of Europe’s most successful companies. This meant that central management was very confident and self-assured. They presented themselves as a strong authority relative to host-market management. As market leaders at home, they had achieved a very dominant position, enabling them to significantly influence the consumer market, and to act as a powerful agent towards their supply base and the wider institutional bodies. Their behaviour was not that of a strategic follower; on the contrary, it was that of a company which often acted differently and, even in Germany, was quite deliberately at odds with established social standards. The ability of the management to resist, despite immense pressures, to deepen the assortment, was symbolic of how strongly the concept had been engrained within the organisation.

This does not mean that the product range was never changed, because it did change in 2005, but the change was not portrayed because of outside pressures and particularly not from customers. The founding Albrecht brothers had stressed several times that they saw the shallow range as an important pillar of the concept. Management explained the changes as a general Pan-European alignment to the competitive situation, and a move which simply maintained the same positioning relative to other discounters who themselves had deepened their offerings.

Meanwhile, ALDI seems to have come under increased pressures from strong competition in the home market, especially by its main rival LIDL. According to Roeb (Planet Retail, 2006 p.101) ALDI was struggling to maintain its dominant position in the German market by the mid-2000s. Not only had PLUS and PENNY caught up with the leading discount duo ALDI NORD and SÜD, LIDL was taking a lead in the German market and had expanded internationally more rapidly than ALDI: *"Much more important is the fact that both ALDIs have been much slower than LIDL in expanding abroad. In almost all European markets, LIDL is now the leading discounter, establishing itself as the leading retail discount brand in consumers' minds. ALDI has been reduced to playing catch-up, with limited success. It can be assumed that LIDL now generates a large part of its profits abroad, enough to sustain or even start a major price war in Germany, where the ALDIs are getting most of their profits"* (Roeb, cited in PlanetRetail, 2006). Roeb further points to significant performance differences between the northern and southern parts of ALDI, which show that, on that average, store sales in ALDI NORD had fallen behind ALDI SÜD.

- International expansion

In 1968 ALDI SÜD acquired 14 Hofer stores in Austria and this move started the internationalisation of ALDI. Whereas ALDI SÜD focused on South and Eastern Europe, and English-speaking countries like the US (1976) and later the UK (1990), ALDI NORD expanded initially into the Netherlands (1975), Belgium (1976) and Denmark (1977). ALDI operated 4,228 stores in Germany in 2015 (Weinswig, 2015), and ALDI NORD operated more than 2,464 stores abroad by mid-2015 compared to approximately 2,240 in Germany, see Table 5-1. This indicates, that despite having expanded into 8 countries within Europe, ALDI NORD remained very German-based.

Table 5-1: International Market Expansion ALDI NORD (Weinswig, 2015)

Year	**Country**	**Banner**	**Stores (2015)**
1975	Netherlands	ALDI Markt	490
1976	Belgium	ALDI Markt/ALDI Marché	440
1977	Denmark	ALDI Marked	220
1988	France	ALDI Marché	922
1988	Luxembourg	ALDI Markt/ALDI Marché	12
2002	Spain	ALDI Supermercados	+250
2006	Portugal	ALDI Supermercados	40
2008	Poland	ALDI Market	90
Total:			2464

ALDI NORD opened its first stores in Denmark in 1977 following the launch in the Netherlands and Belgium. A board member at ALDI's head office in Germany, leading the expansion of ALDI into Denmark, commented on the process that led to the decision to enter Denmark: *"There was no* *different process from experiences before in the Netherlands as an example. Ok, there was one small difference: In the Netherlands we had the opportunity to start with a really small retail chain, of I guess 5 to 6 stores and the advantage to start with 5 to 6 stores, you get a certain infrastructure. You know about accounting and the country laws, you get access to manufacturing and so on, and in Denmark we started from scratch. There was not any small retailer we were looking for we could take. So, this creates difficulties and somehow maybe this is one of the reasons (reflecting about this later) that it took time to establish the chain in Denmark. Same in Belgium it was much easier to start with a certain infrastructure – let us put it this way. And this was the only difference and then you send your first director to Denmark and he gets the job descriptions and the organisational charts"* (Interview board member ALDI, 2012, Appendix II).

Specifically commenting on whether market research or market insights had been sought prior to opening in Denmark, the interviewee continues: *"No, this was what I did before, and this was not really a market research. You just walked through the stores to see what environment and so you see the assortment. It doesn't differ very much from what we knew in Germany. Maybe sometimes there is a bit fresher, or whatever, it does not matter and the only difference which I already mentioned before, was that I had some doubt about the price that we could deliver because of the high value added tax in Denmark: 25% compared to 6% in Germany on food at the time. Yes, at that time non-food, I guess, was 12% in Germany, so also much lower for all the cosmetics and technical products it was 12%, but Denmark was 25%. At that time, I had some doubt if we could give a price advantage of say 30% or so because of this tax issue. But otherwise everything in principle the same and this is just concept"* (Interview board member ALDI, 2012, Appendix II).

Further capturing the approach taken at the time (the late 1970s), the interviewee responding to the question of if market expectations were formulated in a budget or business plan: *"No, no and never! Why? Because you are convinced of this concept and what the concept is for the customer, people like low prices, people like high quality. So, if they can buy high quality at low prices, what is the problem. This will work everywhere in the world and it does! You just start, open stores and start the operation. It will work! And if you do the right job, you cannot avoid success. And all the business plans and analysts and whatever number of people do before, it is all nonsense"* (Interview board member ALDI, 2012, Appendix II).

Almost 25 years later, by 2001, the company had two regional distribution centres (RDCs) each operating about 100 stores, ALDI VEST in Kolding covering Jutland and Funen and ALDI EAST in Greve covering Zealand. ALDI VEST also operated a satellite distribution warehouse in Haverslev covering the stores in the northern part of Jutland. As a reaction to the planned launch of LIDL in

Denmark announced in 2003, ALDI VEST accelerated its store expansion programme. By 2005 more than 40 new stores were opened which led to the establishment of a third RDC in Haverslev.

Despite being first to launch the discount concept in Denmark, ALDI never managed to become the market leader. ALDI was followed by NETTO in 1981, part of Dansk Supermarked Group, who took a leap-start with the acquisition of 20 stores in Copenhagen. In 2015 NETTO operated more than 450 stores compared to ALDI operating more than 220 stores. More importantly, the total turnover of NETTO in 2014 was more than 5 times higher than ALDI’s turnover of DKK3.6 billion, reflecting a much higher degree of market penetration and an average store turnover almost three times higher than ALDI. The more recent downturn in the turnover of ALDI reflects the launch of LIDL in Denmark since autumn 2005. LIDL has followed the location strategy applied in Germany, deliberately locating new stores next to ALDI stores and consequently significantly affecting ALDI sales.

5.1.2. CASE B: TSC OMAN

Role of the author: Business Development Executive, TSC Head Office Kuwait

Time covered: Apr. 2007 to Oct. 2008

The Sultan Center (TSC) was founded in Kuwait in 1976 by Jamil Sultan with the initial purpose of supplying the Petroleum Service Company. The supermarket business started in 1981 with a store in Shuwaikh, which also was the first self-service store in Kuwait. The range of products consisted mainly of imported goods sourced in the US and Europe, and the store format focused mainly on providing a wide assortment delivered within a high service setting. TSC expanded fast in Kuwait. The first wholesale store opened in the 1990s, a retail formula which was based on Sam’s Club in the US. The acquisition of Safeway in Jordan in 2003 and the launch of stores in Oman were the first steps into the neighbouring countries in the Middle East.

By 2005, TSC operated several super- and wholesale markets in Kuwait, Jordan and Oman. Discount retailing was launched in 2006 as an attempt by TSC to add a third format to their portfolio, alongside TSC Service Stores and TSC Wholesale. After an initial brief market survey in Kuwait, the senior management decided that Oman offered better start-up conditions for this concept. Shortly afterwards they hired a former LIDL employee from the UK as General Manager (GM) to head up the project in Oman. After a short period in Kuwait at head office, he relocated to Oman to establish a team of discount retail executives from the UK, predominantly former LIDL staff with expertise in store development and operations. The discount chain offices were placed apart from the local office for the existing operation of TSC, in a villa about 10 km away from the head office. TSC operated one Service and one Wholesale Store in Oman, both in Muscat. The discount team started setting up the business model, allocating several stores locations based on dedicated build stores modelled on ALDI UK.

From the outset of the project, the GM reported to the business owners, the Sultan family. However, the TSC Managing Director of Retail (MD), who was based at the head office in Kuwait, had plans to integrate the separate discount business into the TSC organisation. Apparently, some disputes over the purchase price of water sourced by the discount team had caused tensions between the MD of the retail business and the GM of the discount project. These disputes came to a head during a visit by the MD to Oman in early 2007 and the GM was removed from his post and sent to Egypt to start-up the business there. He left the company a few months later. He was replaced shortly afterwards by a newly employed Operations Manager (OM) to head the discount business in Oman.

Coinciding with the appointment of the OM in Oman, a Business Development Executive (BDE), joined TSC at the head office in Kuwait in April 2007 reporting to the MD in Kuwait. At this stage purchasing the responsibility for TSC discount in Oman had already been placed with a team of purchasers at head office in Kuwait, i.e. the responsibility for buying had been removed from the discount team in Oman.

While the team in Oman was planning to launch the discount concept at the end of 2007 with the opening of 3-5 stores, the organisation was gradually integrated back into the TSC organisation. This integration was orchestrated by the MD, and shortly after announcing these organisational changes, he appointed a new Country Manager (CM) for all store formats in Oman. The MD also decided that the offices of TSC Discount in Oman were to be moved into the same building as the Omani head office and that the OM of the discount business was to report to the newly appointed CM. At the same time, Store Development and HR, previously acting independently within the discount business unit, became integrated within the general retail organisation, and only Operations remained independent. All other parts of the organisation had now become less dedicated to the discount business concept. The BDE was made responsible for coordination between headquarters in Kuwait and the start-up in Oman. Merchandising and market communication was developed at central offices in Kuwait and then transferred to Oman.

Needless to say, the organisation and the discount team in Oman in particular were occupied with digesting these changes during the planned launch of the first three discount stores. However, the integration of the discount team into the TSC supermarket operation forced the team to work together and counteracted further polarisation of the two teams.

The first three stores were opened in February 2008. Store sales under-performed at 60-70% of expected sales. The stores suffered high out-of-stock percentages of between 10-15%, and fresh meat was removed from the range shortly after opening. The response to a customer survey initiated by the

CM showed that customers were asking for more branded products and that the listed private-label "Sultan" brand did not enjoy sufficient acceptance amongst consumers. A review of the range was undertaken by the merchandising team in Oman with the target to add approximately 50 of the strongest national brands to the assortment, bringing it up to about 550 SKUs in total. In June 2008, a further two stores were opened just outside Muscat. Two days after the opening of these stores the MD announced that the discount concept would be closed. The discount team including the CM and the BDE were dismissed. Shortly afterwards the five stores were changed into regular supermarkets under the TSC Service Store banner.

5.1.3. CASE C: DUKAN KSA

Role of the author: COO, Dukan, KSA

Time covered: Jun. 2013 to Jan. 2014

Dukan was an HDR start-up initiated by the Supreme Foods Group (SFG) at the end of 2013. SFG was engaged in poultry production but had diversified the business with the successful launch of the PETROMIN chain of petrol and car service stations. The Chief Operating Officer (COO) was appointed and joined the business in Jeddah KSA in June 2013 after a 6-month period setting-up the project and engaging two consultants in the business (CA, CB) during spring 2013. The CEO of SFG was keen to rapidly launch the project and open the first stores before the end of 2013.

The consultants added considerable HDR experience to the project. CA had been involved in several successful HDR launches, including the start-up of BIM in Turkey. CB was actively engaged in an HDR project in Colombia and Turkey. CB visited Jeddah every 2-3 weeks and engaged in weekly meetings via conference calls with the CEO and COO. In October 2013 two former ALDI employees joined Dukan, one as operations manager (OM) and the other as logistics manager (LM). They brought the number of ex-ALDI/BIM employees to a total of five creating, a significant common reference point. In the roles dealing with external local authorities - e.g. expansion manager and HR management - local people were employed.

The business start-up was placed within the headquarters of PETROMIN in Jeddah but was partially drawing on HR resources and support from the SFG organisation in Riyadh, while gradually increasing its independence as a stand-alone unit with its own business functions.

The business launched very quickly, in particular because the core team were familiar with the ALDI HDR concept. It was orchestrated by the consultants and executed by the COO. The first store opened in January 2014, a further two opened in February 2014. By the end of 2014 approximately 20 stores had opened.

In the period leading up to the opening of the first stores, it become clear to the COO that all purchasing decisions were to be approved by the newly appointed Chief Purchasing Officer (CPO), who was a long-time colleague of the CEO within PETROMIN. This gave rise to a series of contentious discussions within the discount team, as they were used to making the buying decisions themselves and within their respective areas of responsibility. Also, the decision to utilise SAP as a temporary ERP system was a source of contention between the PETROMIN CEO and discount COO. The decision was made despite the consultants pointing out that the system was too complex, and, even more surprisingly, as it had originally been decided that a different system was to be deployed.

The COO was dismissed in January 2014 with the CEO justifying his decision by pointing out that there had been too much resistance to implementing decisions made by him, citing as examples the use of SAP and discussions related to approving purchasing decisions.

5.2. CROSS CASE THEME 1: MAXIMISING REPLICATION

The concept of MaxRep is probably best explored in Case A as ALDI has had time to fully establish itself in Denmark, however, as we will see, even in the start-up Cases B and C the MaxRep theme is clearly in play.

By copying organisational structure, job descriptions, re-using ERP-systems and applying the same operational procedures and programmes as in Germany, ALDI maximises the use of conceptual knowledge spatially. This goes as far as launching new categories such as meat, the extension of the non-food range, controlling the SKU-count or changes to the store layout on a Pan-European scale. The execution is supported by applying a development network to ensure that key competencies are only developed at one point within the organisation – controlled by top management – and after approval copied across country borders into the entire organisation. This practice ensures uniformity and efficiency across national borders.

Cases in point were the introduction of scanner tills in 2004 and the implementation of a new financial system in 2005. Both projects were tightly controlled by head office in Germany and rolled out consecutively across all countries including Denmark after a trial period, typically within one of the 35 German companies, and following the initial roll-out at national level in Germany. The time and resources committed to this initiative by host country management was limited. Involvement in the conceptual development was orchestrated by head office in Germany, and only questions relating to legal feasibility were checked up-front with host-market management. The store and district manager operating manuals also illustrate the detail to which operations were standardised: the German versions were translated into Danish by the Danish operations manager. Contracts, meeting agendas and other content were similarly treated.

The similarity and familiarity then made it easier for visiting management from Germany to exercise the same level of control as was applied in Germany. Such standardisation was the backbone of a complete cross-border transfer that enabled control and secured a consistent execution of the concept. Strong integration and adherence to the retail formula were reinforced with frequent visits and telephone calls to closely tie the Danish operations to the standards set in Germany. Homogeneity was established by the high degree of transferability of the retail formula and the HDR institution.

This process not only transferred home-derived standards to Denmark, but in addition also brought in-line any deviations from the way the business was operated in Germany. For instance, the introduction of fresh milk and butter in Denmark had been highly contested, because ALDI Germany serviced a very different consumer demand with respect to the dairy range. The introduction was consequently significantly delayed compared with NETTO, resulting in significant loss of competitive strength. Other examples from Case A of the tension between replication of the domestic (German) model and adaptation to the local (Danish) market during the period of 2003 to 2006 include:

- The local decision to use weekly flyers, instead of newspapers as the advertising media, was contested by German central management on several occasions. At one point the flyer distribution was stopped to measure the effects, and the consequence was that a drop-in sale more than off-set the savings made. The leaflets were retained.
- The decision in Denmark to introduce baskets, as they were offered by all other retailers in addition to trolleys, was contested. A trial to remove baskets from the stores was made in 18 stores on Funen for several weeks in 2003, years after the baskets had been introduced.
- The local decision by the CEO of ALDI Karlslunde to employ a Marketing Manager in the Danish head office was contested and the role was subsequently abolished, as a similar role did not exist within the German structure.
- The fact that Denmark distributed Christmas gifts to their employees was contested in 2004. Eventually, the German central management decided to leave this arrangement intact after having checked the costs and being convinced that it constituted a normal gesture in Denmark and was perceived as an obligation by employers.
- The delivery of fresh meat in cardboard boxes, as opposed to the plastic containers used in Germany, led to a trial in one of the German companies to check that the use of cardboard boxes conformed to standards. Germany subsequently rejected this method simply because it was different than the solution already introduced in Germany.

In general, to reinforce the centralisation of decision making, only decisions which needed to be made in the host country were placed there. In this way standardisation was maximised and adaptations were kept to a bare minimum. Only after considerable discussion and checks were adaptations accepted. Adaptations were never agreed as final and it was common for local decisions to be questioned again later. The functional controls demanded by the German head office were used by management to ensure sufficient insight and adherence to approved, detailed work practices. It gave the manager the legitimacy to dig into any of his subordinate's tasks with the aim of questioning the effectiveness and efficiency of the practices deployed, and more importantly, to deploy best practices across the organisation.

To conclude the maximisation theme, the speed at which an approved and commonly understood retail concept can be established in a foreign environment is most noticeably demonstrated in Case C. The same forces are recognisable in Case A and B. The German head office in A and the external consultants engaged in Case C aid the transfer, in contrast with Case B where the local expatriates acted independently from any outside anchor-point upholding the concept formulae. The MaxRep concept leans on, as a local team, highly homogenous, societally embedded actors who are instrumental in transferring the retail formula. This force is increasingly weakened in Case B as the expatriates in turn become embedded deeper into the local environment, lacking sufficient power to enact a pre-defined business standard.

5.3. CROSS CASE THEME 2: SOCIETAL EMBEDDEDNESS

Societal Embeddedness has a considerable impact on MaxRep. This is probably most noticeable in Case C: a "global" approach to the HDR start-up is copied into Dukan, brought in mainly by consultants CA and CB and executed by the local team through the COO. Case C illustrates the impact of common pre-defined reference points within a management group familiar with the ALDI business concept, due to their employment history:

- The organisational set-up was clear from the start and was a copy of ALDI – the core team were familiar with their roles and job content. Key internal roles were filled with former ALDI employees, and roles interfacing with the institutional environment had been filled with locals who had an affinity to western culture. This was particularly the case for the Expansion Manager and the HR-Manager, who bridged the local market institutional divide between the company and the Saudi landlords and visa authorities, respectively.
- Job descriptions and organisational procedures were brought in by the consultants and were consequently aligned with the way ALDI operates. The team in Jeddah were familiar with the set-up and could implement the business without further discussions among a team of experienced discounters.
- Store location strategy was discussed only briefly and executed rapidly during autumn 2013 leading to a fast store-opening schedule. The importance of developing a cluster of stores regionally close to the warehouse was well communicated to and understood by the CEO.

- Despite sharing facilities with PETROMIN in Jeddah, the discount organisation was kept organisationally separate from PETROMIN. Initially some support was provided via the head office of SFG in Riyadh, but after the establishment of an HR function within Dukan in Jeddah in December 2013, support from Riyadh was no longer required.

The standards were established with ease within the core team in the new organisation because the main carriers of the organisation were familiar with the ALDI concept. The main difference to Case B was the establishment of a dedicated warehouse from the start and the application of a different location strategy. These policies were mainly brought about on the advice of the external consultants as they pointed to the importance of applying an approach that had worked for BIM in Turkey. Reference to the successful start-up in Turkey enabled CA to convince the SFG CEO that investment in warehousing was required from the start despite the high cost.

The utilisation of an expatriate team with HDR-exposure was shown to be similarly effective in Case B. Here, bringing together colleagues from ALDI and LIDL, and merging the concepts, required an initial building of a common platform, although the OM and BDE, when confronted with a different Middle Eastern culture, were quick to align their approach. The direct copying of store size and location strategy represents a clear difference between Cases B and C. In Case B there was a higher level of standardisation using the HDR concept as applied in Western Europe at the time, when stores had become bigger, had dedicated car parks and a product range which clearly leaned towards private-labels. The BDE, joining the project after the decision was made to develop a complete private-label range by the merchandising team within TSC, went along with this strategy as it aligned with the strategy, applied by his former employer, ALDI Denmark.

The force behind the transfer described above demonstrates how instrumental the role of domestically, societally embedded actors is for the MaxRep theme. The understanding of the business model, and associated attitudes and behaviours of the key actors, were shaped through the strong societal embeddedness in the domestic market and the emergent (domestic) organisational culture. It is vital in the transfer of core elements of the retail formula that the expatriates act as custodians in Cases A and C, ensuring fast replication. The effects of weakening this anchor point, and ultimately losing the ability to transfer key elements of the retail formula, is most apparent in Case B. Even though the expatriate team was quick to align ALDI and LIDL concepts with which they were familiar with, the intention of the expatriates to execute a standardised concept was severely watered down, as the local MD systematically re-integrated the initially separate discount organisation by orchestrating its merger with the supermarket business. Gradually the expatriate discount management team saw more and more strategic decisions being re-located to the supermarket retail organisation. This local market territorial and network adjustment subsequently “watered down” the dominant influence of societal embeddedness which was a key driver to a replication approach. The consequent alignment of operations between the HDR and the local retail operations brought about many debates and discussions, and jeopardised or at best slowed down the transfer of the HDR business concept:

- The logistics set-up proposed by the discount team foresaw a dedicated warehouse for the discount business in Oman. This was discussed with the logistics manager in TSC and with the MD, who lacking the same level of conviction, decided not to invest in a dedicated warehouse facility, but instead to utilise a third-party solution offered by Agility Oman. This later gave rise to delivery problems: systems integration and supply chain disorganisation caused severe out-of-stock levels shortly after opening the first stores (+50 SKUs). The daily reporting on out-of-stock numbers introduced by the BDE was abolished a few months later by the MD, as he did not see the point of the report.
- Organisation and operational procedures were discussed with the supermarket team – often compromises had to be made. Due to this local management involvement implementation was slower compared to both Cases A and C. Examples include the already mentioned warehouse set-up, cash handling and store accounting procedures, where TSC wanted to copy their company operational standards into the HDR concept. Security staff were also employed into the first stores even though this did not conform to the lean approach of the HDR. The HDR ideal was to take a multi-skilled approach to store level task management and let store staff perform security-related tasks, but this was rejected.
- Merchandising, after being transferred to the TSC merchandising team, did not meet the standards expected by the HDR-team. The range set-up and coverage were not discussed with the HDR-team and the lack of coercive power did not allow the BDE to make any demands or control progression. The launch was consequently delayed, as the merchandising team in Oman did not deliver the range in time for the first store opening, and the range included fresh meat, which had not been planned by the discount team. Lacking control over the merchandising function meant that the subsequent range review after opening was too slow.
- The store expansion programme literally came to a halt after the first 5 stores were opened. The commitment for continued growth was limited by the MD and it was not possible to reach the critical mass of stores needed to attain a profitable business quickly. In addition, it was difficult to expand quickly, given the TSC-imposed expansion strategy of buying land and building dedicated stores.

The impact of the absence of any external head office or mother organisation, which otherwise would have supported the transfer of standard-setting forces, becomes clear when Case B is contrasted with Cases A and C. Findings include:

- In the Cases A and C, unquestioned support in establishing dedicated operations and the copying of approved and well-established working procedures, securing fast implementation without spending time on development or discussing the appropriateness of the same. Examples from Case A are the extension of warehousing, and the establishment of its own distribution system for fruit and vegetables. From Case C examples include the establishment of the warehouse facility from the start and the establishment of a complete and independent discount organisation.
- A high level of support to grow the store network quickly, which is visible in Case C, where 27 stores were opened within the first eighteen months. In Case B it took more than two years to open just 5 stores. In Case A, a mature business compared with B and C, 40 new stores were opened over a three-year period, and more than 40 stores were replaced or completely refurbished.
- Constant support in setting-up standardised organisational procedures aligned with the standardised formulae defined in the home-market context.

These experiences highlight the importance of transferring the societally embedded HDR concept know-how, including the core elements, into the host country; the deployment of standardised operational procedures; and the ability to execute central formulae elements of the retail formula sustained by an outside authority.

This is directly so in Case A via a parent organisation, and in Case C indirectly, through the key actors. The specific events in Case B, where the HDR organisation becomes increasingly embedded within the local supermarket retail business, shows that the erosion of the ability to transfer an established concept goes together with the increasing degree of territorial embeddedness within a non-HDR minded supermarket business. The more involved the supermarket business gets, the more questions and debates arise which ultimately limit the ability of the HDR team to deploy core competences and secure an EDLC concept.

A similar scenario is evident in Case C when the discount team, which had been responsible for their own purchasing decisions, suddenly felt mistrusted and controlled when their purchase orders were to be approved by the Purchasing Manager in PETROMIN. This individual was made responsible for signing off all purchase orders, whereas the HDR set-up expected that only the main purchases of articles sold in the stores had to be approved by him, and that the capital expenditure approvals were to be left to the departmental heads – an approach which delegated responsibility to the individual departments, providing a high sense of ownership.

The fact that key actors in Case B had a strong historical reference to the HDR formula may represent a clear force, however, if not coupled with authority within or outside the organisation, transfer is difficult. The role of societal embeddedness as a significant factor in establishing a continued reference point 'back home', which is vital in establishing commitment to the conceptual core, will be discussed further in the next Section.

With reference to the MaxRep theme, the confidence and self-assuredness gained through societal embeddedness in the domestic market is the core reason behind the capability to engage and deploy the concept as confidently and as fast, as in Cases A and C. The head office at Aldi in Germany, and the role of the individuals CA/CB and the COO, are clearly influenced by the fact that they have seen the concept function well in other markets, and in particular in Germany and Turkey. The fact that the reference point for the HDR team in both Cases A and C is similar, and nearly similar amongst the discount team in Case B, is significant as it generates an instant common cognitive platform. This is fundamental in quickly defining what needs to be transferred, and it is utilised to standardise and accelerate the host-market launches, particularly in Case C.

However, those same ties to home success and to a common operational platform can breed an over-confidence, as shown in Cases A and B, seemingly independent of the host context. A case in point in A is that head office management did not allow the Danish local management to launch fresh milk and butter, as it was not needed in Germany. This illustration displays how the decision was not based on what was needed in Denmark, but rather on what was accepted by German consumers; the key actors were unable to contemplate that customer needs and expectations could be decidedly different in Denmark compared to Germany. The decision (not to adapt) was clearly guided by the societal embeddedness and domestic reference points of the decision makers. A similar situation occurred in Case A in 2004 when it was decided to expand store size. This decision was not based on the situation in Denmark, where the turnover was clearly lower than in Germany, but on the fact that the store size had to increase in Germany because of the higher turnover there. The consequences were higher store costs, under-utilised shelf space and over-capacity in the warehouses.

On another occasion the trial-and-error approach applied by ALDI, as a direct way to test consumer behaviour, was challenged in Case B when the CM initiated a market survey amongst customers, just after the opening of the first three stores. This practice was not used by discounters to gain feed-back from customers. The BDE was surprised by this action, again mainly due to the reference to ALDI's Danish operation, where it had been the practice to analyse the range regularly and keep a close eye on range performance, but never to ask for consumer input directly. Range decisions had always been tested, and consumer insight was never sought to guide range decisions. The same reference to ALDI's way of doing things was challenged in a discussion in Case C between the local discount team and CB, when a local project member proposed a customer survey just after the opening of the first stores. CB was clearly surprised and responded without hesitation that it would be a mistake to ask consumers.

In Oman the societal embeddedness of the GM also impacted the strategy. Here the GM of TSC Discount had decided early to apply a similar location strategy as LIDL had deployed in the UK. The range strategy was also directly copied with reference to the known way of doing business at ALDI in the UK, and the store size and interior layout were directly copied from the UK. The BDE, joining TSC shortly after these decisions were enacted, with his own reference point being Denmark, where ALDI had applied the same location and range strategy as in the UK, did not contest this approach until much later in the project, by which time it was too late to change strategy for the launch.

The main reference for ALDI in Case A is the German home-market context, because the retailer not only has its head office there, but the entire development of the concept was placed within a competency network based predominantly in Germany. Consequently, strategic decision-making was biased towards this environment, and strongly societally-embedded in the domestic market environment.

Case B illustrates how closely these two elements – transferring too much or too little – are tied to the consolidated societal embeddedness of the key actors. Too much consideration was going into discussing the retail formula and the derived operational standards in B, with the result that the store growth rate was unsupported and consequently too slow. The societal embeddedness of the key actors influenced the decision to build dedicated stores from the start, but store expansion was expensive, and the growth rate was much slower than in Case C, where stores were leased. It was the lack of commitment to building stores quickly and to investing in warehousing, combined with an assortment leaning too much on private-labels, which ultimately put the project in jeopardy in Case B. Here the BDE had tried to convince the MD on various occasions to accelerate the store expansion programme, but this requirement was not given the same attention by the MD. Together with the lack of commitment to build a dedicated warehouse, the missing investments in infrastructure were critical to the lack of success of the HDR.

In contrast with Case B, one can see how the experience of CA played a central role in Case C. He argued that the product range should be initially based on branded items only, and store expansion strategy should be based on leasing existing and available locations. Here CA's experience from Turkey, Poland, Colombia and other projects was significant. Additionally, that he had been a member of the ALDI board and so exposed to conceptual developments taking place over years, including witnessing ALDI in Germany shifting from leasing to building dedicated stores, provided additional credibility. In Case B the OM and the BDE were not familiar with these changes to the retail formula, which had taken place in Germany during the 1980s, i.e. before they joined the HDR.

That the level of self-assuredness – founded upon German home-market success in Case A – can be a source of over-confident decision-making is further illustrated by the decision in 2004 to de-list several dominant national brands and replace them with private-label brands. The decision was forced onto local management by the German board member chairing the range review meetings in Denmark. Danish local management, after a short debate, had no other option than to go with the decision, despite being well aware that the ALDI image, and consequently the ability of the ALDI brand to cover private-labels, was much less developed in Denmark compared to Germany.

5.4. CROSS-CASE THEME 3: INSTITUTIONALISATION

Looking back at the MaxRep theme, dedication and a solidified structure at the home-market level to ensure that the EDLC concept is executed, affects the institutional HDR. It is highly prescribed and consists of a well-defined way of performing the most relevant processes, which are constantly scrutinised by top management to ensure sufficient attention is paid to operational detail. As showcased in Case A, the ability to replicate this level of dedication is well established even before considering internationalisation, and the transferability of the same is made easy as it presents itself in a well-defined and easy to copy concept.

Efficiency manifested in the EDLC concept is at the core of the transfer of these institutionalised habits. This focus is visible in Case A, where the full repertoire from a well-established and successfully-operating German market leader was transferred to the Danish subsidiary which was struggling to attain a viable market position. Surprisingly, the lack of a capability to conquer a mass-market position was never discussed in any great length or depth. It was not a banned subject either, but it was over-ruled by the very strong institutionalised norms and values within the organisation; the focus was on efficiency, to cover costs and expenses, and the top line was not discussed. What was discussed were deviations from operational KPIs and the adherence to well-defined operational performance standards. Reviews were undertaken at various high-frequency meetings, starting at the store level and moving upwards in the organisational hierarchy to sales meetings with all district managers, and ending with bi-monthly meetings of RDC directors. These occasions were used to transfer an agenda determined in the home market German management meetings and came from a market where top line was not an issue. Points from the agenda in Germany were directly, and without further questioning, transferred to the equivalent Danish meetings and addressed irrespective of their relevance at local level.

The Danish MD recalls one of the rare occasions where the brand strength and the sales performance were discussed with a superior from Germany. These discussions were generally cut short and most frequently ended with reference to the high brand perception in Germany, which had been attained by delivering better products at lower prices in well-run stores, leading the discussion back to cost efficiencies, price-performance and operational standards. The relevance of cost efficiency was undoubtedly perceived differently by the Danish management team compared to the German head office management. This difference in focus was a constant theme and an on-going source of potential disputes between local and head office management, even though it remained tacit and under the surface most of the time. It reflected the fact that the Danish host-market management saw the market differently from their German superiors and would have wanted to set a different agenda.

The fact that the institutionalised HDR is well-defined and is well-understood by the main actors involved is reinforced by employing actors with a common background and who have worked within the same or similar retail formulae to implement the strategy. It makes it very easy to re-establish similar institutions in Cases B and C. In Case C the initial formation of the organisational set-up was easily guided by a common reference point. In Case B the situation was slightly more complex as two institutional systems (ALDI and LIDL) had to be aligned before being merged and executed. The team surrounding the OM consequently prepared an operations manual which was aligned with the BDE before execution at the launch in Oman. The subsequent common institutional platform enabled a fast take-off in both these cases, building on a similar transfer of operational standards, as in Case A. Later in Case B, and after the re-integration of the discount team into the supermarket business, the speed of transfer changed dramatically. Hereafter, and with the increased involvement of the TSC supermarket team, all the standard operational procedures were discussed, contested and disputed. The supermarket business had established its own procedures, suitable for their bigger format stores, which they felt should be utilised for the HDR as well, one example being the previously mentioned introduction of security staff in stores. Seen from an HDR perspective, introducing new procedures into the larger and longer established part of the organisation was very difficult, if not impossible.

Contrasting the speed of transfer with Case A, and referring to Section 5.1.1, one can see the effect of transferring the confidence derived from success in the home market to the host market. ALDI in Germany had sufficient sales to manage their suppliers in Germany and apply pressures, but when transferred to Denmark this pressure failed to deliver the same response, as the retailer simply did not carry the same weight. This was also the case when ALDI listed private-labels instead of branded products and behaved as if the company position was as strong as at home. Head office sustained a strong belief in the ability of the HDR institution to shape the market in Denmark and did not consider it necessary to adapt to the different situation in the host market. Market perception was transferred too.

Considering Case B, it may be surprising that the BDE was not more critical towards the intended start-up with a range predominantly leaning on private-labels. After all, he had experienced the difficulties ALDI faced in Denmark when substituting strong brands with private-labels, yet this move was not perceived as problematic or discussed in any great length. In Case C, the consultants would similarly not discuss the private-label/brand mix, or if the stores had to offer car parking for customers, even though, compared to Turkey or Columbia, more shoppers by far were driving to stores in KSA. These important strategic issues did not surface and can only be explained by the fact that expatriates habitually rejected the need to pay attention to market differences and denied that the HDR concept could ever be or become affected by host-market contextual artefacts.

Another case in point were the controls carried out in the stores. Following German procedures, employees in ALDI Denmark were exposed to so-called honesty-checks. Management was trained to perform checks applying different methods, as part of their training in ALDI in Germany. They would target employees whom they suspected of taking money out of the till or otherwise being dishonest. These checks were occasionally performed in Denmark, but employees reacted to their German counterparts. They were genuinely upset and reported these methods to the unions. The unions questioned ALDI management and used the media to apply pressure to stop what they saw as invasive controls. Similarly, ALDI in Germany performed check-ups on invoices to follow-up on till performance. This was a regular procedure in Germany. However, this again met with resistance from employees and customers alike in Denmark. The German control culture institutionalised in ALDI Denmark generated an inter-institutional gap between the organisation and the market institutional environments, which led to negative relationships with the unions as well as poor public image in Danish media.

In Cases B and C inter-institutional issues prevail as the discount teams are organisationally placed within existing business units. In Case B, after first being placed separately, the discount organisation was then increasingly integrated into the wider TSC organisation. In Case C the discount team was initially placed within SFG/PETROMIN, but shortly afterwards separated to become an independent business unit. In both cases inter-institutional issues surfaced, some similar, others specific to a particular case, surfaced increasingly during close encounters. In both cases institutional differences stemmed from placing institutions managed by Western expatriates amidst Middle Eastern organisations. Issues relating to punctuality and time-keeping caused disputes. So, did the level of functional responsibility orchestrated by the Western set-up as opposed to a Middle Eastern culture leaning heavily on relationships. The discount team in Case B, for instance, had regular problems when arranging meetings before 10 am in the morning with their colleagues in the supermarket business as, in general, they did not turn up to work before 10 am. Also, the time spent praying (three times within working hours) and picking up children from school around 1pm, especially in KSA where women were not allowed to drive, gave rise to very different working hours for Western expatriates compared with indigenous employees.

More serious issues were raised when the discounters in Case B sourced water at significantly cheaper cost than the purchasers within the supermarket business. The conflict it raised was as much a conflict between institutionalised values and norms as it was an actual question of who was supposed to perform the purchasing function. The functional and task-based discount team met resistance from a role-based merchandising team within TSC. All the staff employed by the MD in the merchandising team were from Lebanon. This effectively created a tribal set-up within TSC because the MD expected all his subordinates to be loyal to him. The MD would have seen a competing purchasing function within TSC as potentially challenging him, and therefore he rejected the duplication of the department. This ultimately led him to take over the purchasing function, taking the first crucial step in dismantling the HDR institution. This led subsequently to the GM of HDR leaving.

Similarly, in Case C, the aforementioned sign-off procedure installed by the CEO SFG for the approval of purchasing orders gave rise to an inter-institutional conflict. SFG wanted to follow their established procedure, but the discounters were not familiar with this level of control and tried to resist it by escalating the issue to the CEO SFG. He, being responsible for the overall operation within SFG, was not sympathetic to this request and did not see the need to align the procedure with the practice used by the HDR team. In subsequent discussions, it became clear that he did not trust the discount team to source their own goods. The HDR team claimed that involving the purchasing manager of PETROMIN in each purchase was cumbersome and caused delays. This conflict gave rise to personal issues between the CEO of SFG and the COO, which later led to the dismissal of the COO.

Institutionalisation manifests itself in several deep-rooted routines and behaviours, which firstly present a hurdle to organisational change and adaptation, and secondly bring about inter-institutional friction or even conflict. The organisational set-up in Cases B and C, where the HDR team was placed within an indigenous organisation was, vulnerable to creating these conflicts. The highly-defined, institutionalised processes within the HDR business may be an important element in the transfer, but they also feed the conflict, even though the HDR team probably expects a degree of hostility based on the home-market position. Looking beyond the organisation itself, Case A shows that the same position in the host-market context can even be elevated into the external institutional landscape and create unwanted resonance within this landscape, and thereby in society as a whole. In this case the internal conflicts generated negative media coverage over the years, which eventually contributed to a call by some newspapers to boycott ALDI stores in 2012. All these issues result from the unrealistic expectation that you can transfer or lean on a position attained in a home market and which safeguarded the approach taken.

5.5. CROSS-CASE THEME 4: NETWORK AND TERRITORIAL EMBEDDEDNESS

The frequent visits of head office management to the host country in Case A are important because they contributed to ensuring that the local HDR upheld the relevant principles and approach of the home HDR institution. Frequent contact, follow-up and tight controls resulted in strong linkages between the host and home locations, as would be expected in a highly centralised system. The linkage between CB and the COO in Case C similarly supported the maintenance of the institutionalised HDR perspective and secured the implementation of the retail formula and the institution in general. The absence of such support and oversight from the outside in Case B contributed to the demise of the institutional strengths in Oman, as the discount organisation could not lean on any external authority to support and defend their transfer. Network embeddedness, represented by the strong ties with head office in Case A, and CB in Case C, contributed to the societal embeddedness of the business within the HDR institution, as defined by ALDI.

The network, or rather the lack of a network, between the expatriate community in the Case of B and C and their respective host organisations (TSC and SFG/PETROMIN), account for the distancing of these groupings within their respective organisations. Owing to expected institutional differences, the isolation of the discount team from the main supermarket team in TSC was deliberately enacted at the outset. In Case C the team was initially placed within SFG/PETROMIN. In Case B the discount team was merged, and in Case C it was later separated out, ultimately contributing positively to the sustainability of the HDR concept. The network ties to the host organisation therefore increased in B and diminished in C. The ties to the supermarket organisation in B led to an increase in isomorphic pressures and caused a significant disintegration of the HDR institution, which negatively influenced the ability of the management team to transfer the HDR formula.

In Case A, considering the issue of territorial embeddedness within the wider host-market landscape, embeddedness was closely managed by head office management, and several central measures were taken to control the process of territorial engagement:

- Only limited social contact was allowed with suppliers or other external organisations. Strictly no dinners with suppliers/partners or contact outside work were allowed, and the receipt of gifts was prohibited.
- Local top management were not allowed to participate in conferences, speak in public or participate in any business networking arrangements.
- Membership of trade organisations was prohibited. This was also enacted at store level as store managers were often invited to participate in local trade meetings. Management were regularly asked if they participated in any public meetings, participated in conferences or otherwise engaged in social events outside the normal work duties.
- Head office management from Germany were highly alert to any kind of demand or pressure from outside organisations which could intrude and affect the internal functionality of the organisation; inquiries from outside institutions were often questioned, contested or ridiculed.
- Management critically reviewed any repeated partnerships between the Expansion Manager and store developers.

It is not surprising that ALDI, being exposed to various institutional infrastructures in multiple countries, was aware that territorial embeddedness could impinge on their ability to sustain an integral transnational HDR institution. They executed strict policies to keep local networking activities to a minimum and any associated enabling processes were deliberately avoided and highly controlled.

The impact of becoming highly embedded in a context non-familiar with HDR is illustrated in Case B. The time and energy spent trying to secure the transfer of the HDR formula by expatriates was considerable and resulted in an increasingly hostile relationship with the host organisation in TSC. The pressure to apply TSC operational standards, for instance, to introduce the same cash-handling routines or deploy security staff in the stores, was considerable. These pressures exemplify mimetic isomorphic pressure to deal with situations by establishing similar solutions and similar institutional norms and behaviours. Giving into this pressure would have increased operational complexity and costs and would have jeopardised the EDLC element of the HDR concept, whilst opposing it would result in loss of legitimacy. In Case C, these institutional pressures were ultimately avoided by the separation of the HDR organisation from SFG/PETROMIN. This was an important step toward avoiding direct isomorphic pressures. In Case A the limiting of territorial embeddedness through deliberate processes enabled by the HDR made it possible to buffer isomorphic pressures.

In Case B, the team in TSC gave valuable input to selecting the range and setting-up the stores. Range and merchandising decisions benefited from local input. Similarly, in Case C the range was initially selected by employees within PETROMIN, who were asked to propose items belonging to an essential range of everyday purchases that they would expect to be able to buy in a discount store. The process supporting range-selection was more established in Case A, where the buyers sourced products by category and were expected to look closely at what sold in competing full-range supermarkets. Categories were revised quarterly, half-yearly or annually and the purchasers were expected to source relevant replacements for de-listed products without seeking market insights from other institutions. The process was copied directly from Germany. Despite these inputs, the general awareness and integration of host-market consumer behaviour was limited. In Case A, for example, the sourcing standards employed by NETTO, who seemingly worked an end-to-end merchandising approach, were discussed to understand if they were more suited to the Danish market and should be adopted. This would have engaged purchasers more in the layout of advertisement and store merchandising. However, benchmarking this approach against the ALDI way was quickly rejected by head office executives.

When one looks at instances across the cases where the HDR deliberately sought local embeddedness to become isomorphic with the environment, the following instances are significant:

- In Case A in 2003/4, when establishing weekend shifts in the warehouses, ALDI Denmark worked closely with the unions to avoid inter-institutional conflicts and secured a more collaborative position. Negotiations were completed successfully. Such a relationship would not have been encouraged in Germany.
- In Cases B and C, the employment of locals in boundary-bridging jobs, where the HDR needed a higher level of territorial embeddedness, like expansion and human resources, was instigated by the HDR senior management team. This was the case in Case B and C but was not seen as very important in Case A, as seeking to close the host-market institutional gap was not perceived as an issue. This was possibly because the organisation was not considering employing expatriates in these roles in the first instance.
- In Case B, local merchandising developed a more locally-influenced assortment set-up than would have been possible if the expatriates had decided on the range of products. However, they did not question the decision to base the assortment on private-label from the outset.

Despite these examples, there is no general evidence that the expatriate management teams were seeking a more systematic input from locals into formula design from locals. On the contrary, it was often avoided, as it caused the approach taken to be questioned and was time-consuming which, in the light of the pressures to open as many stores as possible, was perceived as being challenging or even disruptive.

5.6. CROSS-CASE THEME 5: ISOMORPHISM AND LEGITIMACY.

Isomorphic pressures contributing to the legitimisation of the HDR are managed consciously across all of the cases. However, note the close organisational encounter in Cases B and C with established host organisations, as opposed to Case A where the host organisation was established by the incumbent retailer on entry into Denmark. In Case A head office exercised much more control over the institutional set-up and the boundaries to the institutional environment in the host market, although internal legitimacy issues between the German head office and the Danish top management were still present.

In terms of legitimacy, the case of introducing a new retail concept in Case B was a real challenge. Not only was the project initiated by the owner without TSC top management involvement, but the discount team was initially placed away from the main retail team to sustain the independent thinking required for the establishment of an HDR-institution. However, this did very little to generate any commitment or ownership within the supermarket business and had implications for the support the discount team was given by the mother organisation, especially once it merged with the main organisation. The MD of TSC Retail had severe difficulties accepting that the discount team could be allowed to source goods which were already sourced within TSC. The discount team, in effect, competed with the team of merchandisers he had brought in. Also, the fact that food supermarket retailing was like the food discount business, meant that the MD had difficulties believing that functionality needed to be differentiated within the organisation. Not being familiar with the differences between running a supermarket and an HDR retailer, he perceived this as potentially common ground. This led to the assumption that embedding the HDR team within the main retail business would be advantageous.

Comparing this approach with that performed mainly by the CEO in Case C, you can observe a very different approach. The CEO of SFG had initiated the establishment of the HDR business. He had full ownership and had accepted that the PETROMIN business, even though operating a chain-like set-up, had very little influence on the HDR unit. It was furthermore made clear by CA and CB as well as the COO, that the HDR-unit had to be established as an independent unit, five to six months after launch, to allow for its own unique institutional set-up. Nonetheless, even with the full backing of the CEO, some legitimacy issues arose during the start-up period related to the buying function performed via the SFG organisation.

In Case B the same issues were more sensitive because the planned merging of the buying function signalled the beginning of a complete merger of the HDR unit into the TSC organisation. The HDR unit was very aware of what this implied, especially as the MD at this point had already dismissed the GM earlier in the project, making clear his intentions to control the buying function. The gradual merger was never really accepted either by the OM or the BDE, who both knew that the HRD institution was severely threatened by this move. By their standards, it was unheard of that a discount unit was led by a managing director who had no former direct exposure to the discount concept and consequently no conceptual competencies. On the other hand, the MD felt that he had the right to take full control of the entire TSC operation and that his role as managing director made the move to merge the businesses legitimate. The grounds on which legitimacy stemmed were very different within TSC compared to the origins of legitimacy within the value system of the HDR team. The same was true in Case C where SFG employees, with reference to their established organisation and way of operating, thought they could legitimately apply their way of handling the buying function. The effect of the HDR team members being closely connected illustrates the function of network embeddedness as it sustains, and possibly even reinforces, the position held by the discounters grounded in their common societal embeddedness and reference to the HDR concept. It simultaneously created an institutional distance from the respective external parts of the hosting organisation.

Not surprisingly, pointing at the way isomorphic pressures were avoided by limiting territorial and network embeddedness in the host country in Case A, the inevitable separation and distance from the wider host institutional environment had several consequences for ALDI in Denmark:

- The company was perceived as very closed, almost ‘introverted’, giving fuel to speculation and rumour. A lack of transparency seemed suspicious and when labour disputes were displayed and discussed publicly, being non-communicative was perceived as an admission of guilt by the Danish public.
- The isolation and buffering resulted in an inability to increase legitimacy by mimetic isomorphism: the isolated position did not allow for the elaborate contacts needed with other institutions needed to learn and copy their behaviour.
- The unions were particularly aggressive towards ALDI, attempting to force the retailer to be more collaborative and engage with the wider community.

It seemed as if ALDI Germany was looking in a different direction when judging what would bring about legitimacy in Denmark. The Danish MD remembers that performance, seen as the ability to offer more value by lowering prices to drive the value offering, was understood by his superiors from Germany as the key to gaining more legitimacy in Denmark. Applying more cost control and securing a stronger drive for EDLC would be a consequential prerequisite for strengthening the market position. Alignment of the formula with Danish norms and standards was not seen as an option. Also, management believed they had been under so much public scrutiny in Germany that this in itself was ‘normal’ and not a reason to give into these pressures; it was just another challenge. The situation in Denmark was judged on the same premises as in Germany, despite a very different contextual character and possibly a different appreciation of value by consumers. The ‘honesty’ tests, which were highly criticised by the media, together with other negative press coverage relating to work conditions in stores, provide examples of how ALDI lacked market legitimacy.

Amongst the boundary-spanning activities related to isomorphic pressures, one should not overlook the influence of direct in-store contact with customers. ALDI tested the removal of shopping baskets in Funen, in an attempt to remove them fully from Danish stores. It also introduced scanner tills which were based on a Pan-European design that was less customer friendly than what was otherwise common in Denmark. In general, ALDI’s response conformed to demands set by global standards. Seen from a Danish perspective, one felt that ALDI deliberately wanted to approach things differently, to stand-out positively, mostly motivated by doing things like it did in Germany. Not surprisingly, many customers had the impression that ALDI predominantly sold German products even twenty years after its launch in Denmark, when in fact it sold just some products listed in Germany. The image of ALDI being a ‘foreigner’ stuck and the disruptive behaviour described above – even though not directly linked to the assortment which had been altered dramatically since the launch – portrayed the ALDI brand as supporting behaviour that did not try or want to adapt to local consumer needs. It was as if management ignored the fact that the brand was much weaker in

Denmark than in Germany. It was as if head office management cognitively was unable to recognise the huge differences in brand strength.

Danish top management, being closer to the market and sensing that a better market fit or at least a less provocative stance should be taken, were quickly seen as non-conformists, weak and unable to follow head office strategies. The strong network embeddedness combined with the highly institutionalised EDLC strategy, did not allow for a different approach. The Danish management team were removed from their positions indicating that they, following a series events exposing their non-conformism, had lost their legitimacy in front of the German head office management when not uncontestably executing the concept. The Managing Director of ALDI Denmark in 2003, for instance, was fired ostensibly for serving a glass of champagne to colleagues.

The interrelationship between strong internal institutionalisation, which is instrumental to predisposing ALDI to cross-border standardisation; the societal embeddedness of head office employees in their home-based HDR institution; and strong network embeddedness between head office and host country management is all connected to the ability to embed territorially. If ALDI was to seek a higher level of territorial embeddedness it would have to change its strong ties to the German head office, because otherwise it is likely to transmit external legitimacy issues into internal issues. The alternative would be that the institution would permit change, which leads one to question if it is able to allow for more flexibility at central level when deploying adaptive capabilities.

5.7. CROSS-CASE THEME 6: THE COMPETENCY TO ADAPT

With the MaxRep approach one would expect adaptations to be limited to modifications that are forced upon the organisation by way of legislative pressures in the host environment. However, one should not overlook the fact that initial resistance, such as adjusting the assortment and price setting have been subsequently accepted as standard processes securing local alignment. These were adaptations applied reluctantly and slowly, but nevertheless they were eventually applied. That these measures could have gone further, or could have embraced other elements of the concept, counteracting the constant search for a standardised platform, is probably not contestable. Neither is it contestable that the reluctance and slowness to adapt, the lack of proactive alignment to market-driven forces, leaves the HDR with a challenge. It begs the question; why is so much copied over from the home context and what stops the HDR seeking more territorial embeddedness? What is evident from the cases is:

- In Cases B and C, the actors were focused on delivering fast growth, not allowing much time to consider adaptations. Examples include copying the store size and location strategy from UK in Case B, not questioning the national brand/private-label mix in the same case and listing shallow ranges in all cases despite lacking brand strength and\or price performance in Cases B and C to back this stance up.

- Bridging the home and host context calls for different competencies as is apparent in Cases B and C. The actors were mostly familiar with store operations but not tuned into developing or adapting to market differences. Neither are the central or outside sources able to deliver much help here. On the contrary, the strong organisational embeddedness within a mature home context delivers pressures to apply known operational competencies.
- There is some evidence that multi-country and multi-stage exposure, illustrated by CA and the COO in Case C, advances adaptive capabilities as they become part of the make-up of the societal embeddedness of the actors. The COO, being exposed to standardised operation in Denmark, and having gained experiences from the start in Case B, was by the time of Case C more likely to advance adaptations beyond what CA would commit to, which gave rise to some differences in opinion about what the launch strategy should be.
- The impact of being very exposed to the local territory in Cases B and C is evident. One can perceive the isomorphic pressures in B more as a general force to 'do as we do' applied by the supermarket business. This justifies the stance ALDI takes in Case A to a certain extent, to buffer these pressures. However, this can also be perceived as a reaction to simply not having the competency to adapt and consequently dismissing isomorphic pressures because ALDI does not know what to make of it, and it is simply overwhelmed. The same is evident in the other cases as local input is not sought or filtered by any measures or means, and the actors were mostly applying what they knew worked from home as they did not know which local input to seek.
- Seen from an embeddedness perspective, and illustrated by the disintegration in Case B, a deeper engagement territorially would need to be controlled and supported by more 'core concept' influences to secure the transfer of the core of the HDR concept. The balancing of influences is also relevant in Cases A and B, which demanded a closer tie-in with head office to stay on track. However, it may also require a different input such as in Case A, for a competency-injection on how to operate a mature-stage HDR.
- It seems significant that ALDI seeks to constantly bring the local operations in Denmark in-line with the global perspective, here in particular considering the example of the flyer distribution and baskets in stores. It cannot find a resting-point and accept these adaptations, which generates tensions. Tensions can be helpful, but the imbalance of competencies seems to create tension on issues which, seen from a local perspective are not contestable, as these adaptations are obvious considering the market input.

Considering how much was actually copied from the home context in all cases without much consideration and how the actors struggled to consider adaptations, MaxRep clearly affects the overall strategy. The ability to adapt to host-market conditions increased with time, allowing for a learning process to take place, which ultimately reflected the experience ALDI had gained from operating internationally. However, it remained fundamentally tied to a global operation which had to secure a general application across all countries, thereby affecting the agility it could demonstrate in one country.

The argument that giving into isomorphic pressures and adapting to unqualified demands made on the concept causes a loss of strength, is showcased in Case B. Here in particular the decision to apply a similar warehousing strategy as in the supermarket business caused a severe loss of ability to apply the EDLC concept and to control product availability. Also, the demands made by the business to deploy security staff in the stores was not based on a real need but more because it was the norm in TSC. The adaptation demanded of the purchasing process in Case C similarly did not represent localisation. On the contrary, some of these alterations watered down elements important to applying the HDR concept.

The cases also show some unique and clear tendencies that applying an anti-isomorphic strategy, particularly in areas central to the functioning of the concept, does play its part in upholding a degree of innovation and uniqueness of the HDR approach and consequently affects how adaptation is blended-in. Having said that, it is unclear if giving into isomorphic pressures would have led to the enactment of successful market adaptations, certainly not without placing specific competencies with key actors at the same time.

In Case B the absence of a drive for standardisation from a powerful external agent, such as a head office tie or via respected external consultants (as in Case C), left room for adaptation. This shows that the push to standardise is not only driven by outside pressures. More importantly, one might assume that the team on the ground can exploit the room for manoeuvre and adaptation. Despite this, the expatriate team was quick to fall back on what they knew, i.e. the conceptual models applied in Denmark and in the UK. The capability to deploy smaller stores for instance, and to lease existing locations instead of building stores from scratch, seemed to have not been considered in Case B as the team around the GM had not been exposed to this practice before. This was different in Case C, here the consultants were familiar with the smaller store concept from BIM in Turkey and from their projects in other countries, and therefore they had the adaptive capacity to apply a wider portfolio of concept variants. The dependency of adaptation on the societal embeddedness of key actors, their multi-national experiences and the subsequent exposure to various set-up options, seems significant.

An example of where local input would have been valuable is the employment of expatriate store staff in Case C and an understanding of the Saudisation legislation. Here the ongoing friction between the discount team and the locals affected collaboration so that an in-time transfer of knowledge to operate under these special conditions was not passed onto the discount team.

5.8. SUMMARY

This Chapter explored six inter-linked themes relating to the standardisation debate across the three cases.

- **MaxRep:** As a strategy illustrates the dominant influence of the home-market societal embeddedness of the organisation and business model, or the societally embedded actor, on the associated processes of transfer. The cases explored how MaxRep works on a micro-institutional level, and what the consequences are associated with this behaviour. For example: the uncontested application of home-market defined standards; the constant attempts to bring colleagues into-line; and the continual focus on issues which are important for maintaining a globally integrated retail business even though local issues may be of at least equal importance.
- **The role of societal embeddedness**: Societal embeddedness is closely linked to the MaxRep approach as is illustrated by the cases. The role of societal embeddedness in the domestic market in shaping the organisation or the actors who see themselves as custodians of the retail concept is core to the transfer of the retail formula. As they have experienced the concept succeeding at home, they drive concept standardisation from the launch in the host environment by over-riding environmental differences. Standardisation is an 'inherited' means to attain cost-leadership and comes naturally for the custodians. Societal embeddedness acts as a key in determining whether the vital elements of the concept are transferred, or not. The cases also show how societal embeddedness in daily work routines can result in decisions based on the home-market context rather than local host-market context.
- **Institutionalisation**: The deployment and reuse of any utility the company may have established on the home front has advantages and drawbacks. The comprehensive transfer secures a take-off/launch from a well-established platform (allowing for speed), however, at the same time it encourages the HDR to bypass any kind of re-conceptualisation of the formula. The front-end of the retail formula is designed mainly by applying operational standards developed in the home market (back-to-front). In markets where differences occur this may be perceived as premature because the market position in the host market remains unconsidered and market alignment arbitrary. Routines, standardised within the institutionalised HDR in the home market and transferred abroad, combined with limited network or territorial embeddedness, will impact on legitimacy in the host market.
- **Network and territorial embeddedness**: The combined constellation of network and territorial embeddedness is instrumental in steering the level of alignment attainable in the host market. HDR institutions are generically (by their application of an EDLC global approach) likely only to territorially embed to a limited extend within the host market – the

dominant form of embeddedness is societal. They consequently leave themselves vulnerable to not gaining the local input needed to be able to adapt. The linkage between the three embeddedness types relative to the capability to adapt at a central level must become clear (if they have little capability and are societally strongly embedded, local input would become unmanageable and generate internal legitimacy issues). The cases explore whether unfiltered territorial embeddedness, within the host context, supports a more adaptive approach, or if it limits the application of core competencies.

- **Isomorphism and legitimacy**: As mentioned, the level of network and territorial embeddedness controls the level of isomorphic pressures on the HDR. In Case A ALDI Germany enjoys a strong brand and is highly successful at home. These factors may not be transferable, or at least they will need to be re-established in the host market. The origins of legitimacy based on success and brand in the home-market context contrasts strongly with the constellation in Denmark, where similar sources of legitimacy did not become available to the same extent. Isomorphic pressures need to be seen relative to the need to maintain market impact and key competences. The aim is to qualify isomorphic pressures in terms of their support in bringing about required adaptations and bringing about the network and territorial embeddedness needed to support these adaptations.
- **Competency to adapt**: It is expected that the ties to head office and the host-market societally embeddedness implies that the HDR will need to assimilate more know-how at the central level to adapt. The competencies will need to mirror higher levels of territorial embeddedness in the host market as local input otherwise will be dysfunctional in the organisation. Local embeddedness will, on its own, just generate local market insight and, if there is no capacity to adjust business models in line with the locally proposed adaptations, it will lead to legitimacy issues within the organisation.

Reviewing the cases, the author returns at this point to the suggested core trans-contextual dimensions outlined in Section 3.5:

- Consumer cultures and competition
- Stages\phases of development
- Domestic success and brand strength

The cases demonstrate that these three dimensions constitute at least part of core trans-contextual elements for the internationalising HDR. They may not embrace the complete set of trans-contextual issues; however, they cover some of the very central issues and will therefore be used in this thesis progressing into Chapter 6, in particular demonstrating how the strategic trajectory MaxRep relates to these three dimensions.

6. DISCUSSION AND CONCLUSION

The starting point in this Chapter is the historical review of ALDI as an exemplar of the HDR concept as it illustrates a global approach derived from having become a very strong replicator of the evolved business model in the home market. This domestic evolution, presented below in Section 6.1, shapes the MaxRep strategic trajectory used to internationalise (presented in Section 6.2) and leads into the discussion in 6.3 of how this impacts on how the HDR perceives and deals with trans-contextual differences in international markets.

6.1. HISTORIC BALAST

With reference to the case brief relating to ALDI Denmark (Section 5.1.1), one needs to fully understand the character of ALDI Germany prior to its launch in Denmark in 1978, and the developments taking place in parallel in Germany which influenced decision-making in Denmark during the 1980s and 1990s. This takes events up to the start of the case itself. The highly competitive German retail environment, further heightened during the 1990s by the threat of LIDL, forced ALDI to seek out operational advance efficiencies. Consequently by 2000 ALDI had developed a systematically efficient institution, with highly developed replicator capabilities:

- The mass-producing HDR had grown faster than any other retailer, in a very competitive environment, and had simultaneously established a very high efficiency based on the capability to replicate and increasingly dedicate its operational infrastructure in support of this prolonged growth and success period. Fast growth was seen as being fundamental to attaining this position.
- The refinement of operational standards, being central to the EDLC concept, was further driven by the overlay of a competency network promoting one 'best-practice' way of operating across all units. The retail formula was highly standardised and transferable. Guided by the operational executive board, the network aimed at promoting induced strategy development, and had, combined with the stringent focus on reducing costs, eliminated autonomous strategic initiatives almost completely. The induced strategy development increasingly emphasised resource-driven initiatives improving performance within the existing infrastructure.
- The intense comparison and follow-up on KPIs aligned the attention of management with this very focused and narrow EDLC and infrastructure-driven strategic context, which further focused attention on and advanced efficiencies.
- References to the owner, and the numerous stories about his way of emphasising asceticism, had allowed ALDI to successfully apply a different and culturally unique approach to HDR reinforcing its competitive advantage.

The domestic success of ALDI reaffirmed this resource-driven dedication which, given market resonance, resulted in a dominant position in Germany and provided the legitimacy to drive this strategy further in the same direction. Referring to Burgelman (2002, 1991, 1983), the evolving ecology of strategy-making and the determining influence of the strategic context will impact severely on what the HDR defines as being of strategic importance. In addition, what is significant is the effect this co-evolution will have on the balance of internal versus external selection and subsequently on the embeddedness characteristics. Burgelman (2002), points to the co-evolutionary lock-in, which when applied to the HDR, emphasises the close alignment of retail output and the German consumer. The early development of ALDI reflects an offer-driven approach, hereafter with increased market dominance, when ALDI changes to become increasingly resource-driven. This effects the embeddedness characteristics as ALDI could rely on very specific consumer feed-back but otherwise keep a distance, tap into legitimacy gained from being successful and therefore deflect isomorphic pressures as it started to internationalise.

Seen within a dynamic perspective, it is important to note that this alignment was ongoing and continued even after the internationalisation phase started in 1976. Increased competition from LIDL during the 1980s and 1990s forced ALDI to focus even more on cost management and price performance which was funded by driving operational efficiency further. The efficiency gains made in its operation were reinvested in more aggressive pricing and were instrumental in generating the cult-like status achieved by the end of the 1990s.

The fact that it had successfully launched a new retail format meant that ALDI had built its success on doing things differently and independently, a characteristic it had been able to sustain over the years by controlling (i.e. limiting) any outside input as illustrated in the case brief provided by Fedtke (2012). The founding brothers had the cultural legitimacy to question everything, especially new management themes and concepts. This behaviour became part of their success as it advanced their resource-driven EDLC concept leveraging the value proposition more rapidly and solidly than the competition. They realised that protecting this advantage meant they needed to reject the isomorphic pressures for conformity with the 'market norm', which often stemmed from public institutions and unions. They also become aware early of - given the openness within the retail sphere and the opportunity to copy best practices - the need to protect their unique know-how from competition and public scrutiny. The fact that Theo Albrecht was taken hostage in 1971 reinforced this 'detachedness' from the public arena. The policies installed related to gaining consumer feed-back limited network embeddedness and therefore guarded ALDI against other outside influences which could expose their competitive advantage or initiate autonomous thinking. Top management were aware that limiting connectedness would also limit the input to initiating any strategic initiatives which might fall outside the strategic context as framed by a top-management.

The success it had attained through generating value for consumers also gave rise to significant organizational legitimacy, which combined with high sales volumes meant that it could apply substantial pressure on suppliers and withstand any isomorphic pressures from institutions in general. Consequently, ALDI was highly influential when applying its practices often without seeking approval or endorsement.

Driving efficiency levels as ALDI did meant it was monitored closely by the unions, who were keen to criticise ALDI on any possible occasion. Being in a mass-market retail business and applying a control-culture based on highly prescriptive procedures, meant that ALDI was in the front-line of scrutiny from the unions. However, the high level of legitimacy attained by being so successful, combined with the approach to embeddedness, was able to off-set the impact of this scrutiny in Germany. The outcome was a highly controlled routinised operation, with a clear focus on an uncontested business model, which was justified and reinforced by the organisational business culture and continued success in the home market.

6.2. THE STRATEGIC TRAJECTORY: MAXREP

These traits become part of the global MaxRep theme applied to retail internationalisation as summarised in Table 6-1 below. Also, ALDI was promoting traits which made the formula transcend regional trans-contextual differences wherever possible even, prior to internationalising, in the home market. Pricing differences, assortment or operational amendments driven by regional differences were approached reluctantly as implementing universal operational standards were given priority.

The fact that German consumers resonated with these traits implied that the country-specific societal ballast had become entrenched in the retail formula, possibly most noticeable in the high degree of self-service and fast till operation. The shallowness of the product range combined with aggressive pricing, for instance, mirrors the keenness of consumers to save on their food grocery shopping and signifies the symbiotic relationship between ALDI and the German consumer. The consistency established between the efficient operations and the value proposition, meant that the HDR retail formula was totally driven by replication, efficiency and extreme cost scrutiny not leaving any activities within the company which were unaccounted for or which did not align with the narrow focus of the company.

MaxRep, as a global approach, was to be applied in different market contexts in a very well-defined and specific way, with high transferability and potentially low compatibility and limited flexibility. It could be applied forcefully with high impact to maximise the transcending properties, however the same properties, when confronted with differences which could not be ignored, could generate strategic inertia resulting in a trajectory that will be illustrated in Section 6.3.

Before considering trans-contextual influences, we need to conclude on what advantages can be drawn out of applying the MaxRep theme. Drawing on the cross-case analyses, presented in Chapter 5, one notices the benefits of this approach:

- Fast growth in Germany securing a dominant market position provides a ‘model’ for other markets on the assumption it can be replicated.
- Easy/fast market entry into Belgium/Netherlands without spending much time on preparing an adaptive approach and/or performing lengthy market surveys etc. The same was the case in Denmark, however, here this approach was less appropriate.
- The homogeneity established in Case A and Case C based on similar societal embeddedness, results in fast execution as little discussion was required on how to approach the local markets, the common reference point of ALDI/LIDL makes it easy to agree on a standardised approach.
- The rapid take-off and expansion confirms that in terms of speed and growth, MaxRep is the best approach if market differences are insignificant and require no adaptations.
- The pan-European roll-out of changes, such as the introduction of scanner tills and financial systems, the extension of the assortment (bakery, meat etc.) showcases that this approach is very efficient and capitalises on economies of scale when executing standardisation.
- The overlay of a competency development network in Case A centralises conceptual developments of the retail formula and ensures a standardised development aligning business practices globally.

Assuming that markets are homogenous, or that consumer habits can be shaped, as debated in in Chapter 2, MaxRep is a highly efficient approach as it carries very limited adaptation costs and allows for rapid execution and replication. The cases also demonstrate how closely the capability to apply MaxRep is tied to significant societal and network embeddedness of key actors into the home-base (Case A), or otherwise being bounded by external sources supporting the concept transfer (Case C). Case B, in contrast, demonstrated how the transfer of vital core elements of the HDR formula is weakened if this societal tie is missing, which impacted on the home/host territorial balance of influences on the organisation in Oman.

Table 6.1 below summarises the key characteristics of the MaxRep approach in respect to different forms of embeddedness across the cases. The constellation in Case A and C being the one which is mostly aligned with the MaxRep approach.

Table 6-1: Embeddedness characteristics exhibited in the cases

Dimension	Case A/ALDI	Case B/TSC	Case C/Dukan
Societal Embeddedness (SE)	Centrally embedded actors transferring the retail formula and institution (ALDI) and ensuring execution, strong NE between host and home superposes SE to home HDR-institution	Key actors carrying the discount concepts (ALDI & LIDL) but having no external NE to support SE weakens the transfer und ultimately undermines the transfer	Conceptually embedded actors transferring the retail formula and institution (ALDI) and ensuring execution, NE between COO and Consultants superposes SE
Network Embeddedness (NE)	Strong ties to head office to maximise transfer, restricted NE in host country to buffer isomorphic pressures	Strong NE within discount team, NE within wider TSC organisation increases when merging and dilutes transfer	Strong NE within discount team, NE within wider PETROMIN organisation – diminishing after becoming independent
Territorial Embeddedness (TE)	Limited TE due to NE restrictions, constant monitoring of relationship to external institutions by head office executives	Increasing TE due to merger with TSC supermarket causing isomorphic pressures, relationship to outside institutions bridged with local employees	Decreasing TE after moving out of shared offices which decreases isomorphic pressures, relationship to outside institutions bridged with local employees
Embeddedness constellation MaxRep	Superpose SE/NE to maximise transfer, and simultaneously minimising NE/TE in host market (customer and institutional influences) to maximise impact of strategic trajectory	Maximise SE by bringing in discount team, TE/NE not controllable after merger with supermarket business which affects transfer and weakens strategic trajectory	Maximise SE by bringing in discount team, TE/NE initially not controllable after merger with supermarket business affecting transfer
Isomorphism	Pressure buffered by regulating NE & TE, upholding internal homogeneity but establishing institutional divide to outside institutions	Pressure increasing with merge and leading to slow-down of transfer of HDR formula due to discussion with TSC retail team, partial disintegration of concept	Pressures to imitate PETROMIN standards (ERP use and purchasing) causes issues, eased when organisation separated
Legitimacy	Institutional divide feeding distance and dissonance, affecting legitimacy and ultimately leading to boycott	Low seen from TSC Team perspective due to initial set-up, issues increased when merging due to increase in NE/TE, leads to dismissal of GM	High seen from CEO perspective due to initial set-up. Affected by issues arising due to ERP and purchasing standards, which led to the dismissal of the COO. Eases of after separation

What becomes apparent is the central role embeddedness within the corporate organisational origin plays in determining the forces behind the strategic trajectory, the slow-down in Case B compared to Cases A and C showcases this vital difference, which affects the speed and the overall ability to replant the institution in the host context. In terms of embeddedness characteristics, it clearly emphasises the importance of the superposition of domestic societal and network embeddedness bundling corporate (Case A) and core conceptual thinking (Case C) together to strengthen the transfer of the HDR retail formula and creating a common cognitive platform aiding replication and defining what needs to be transferred. Replication forces are not only transferred but are constantly fed by continuous pressures enacted by societally embedded actors who are applying their conceptual views and pressures to ensure execution of the well-defined formula. However, if these sources of confidence and brand strength are not instantly transferable, based on success in the home context and, assuming the conditions are present in the host-context, this can also lead to over-confidence and ignorance if confronted with trans-contextual dimensions, which do have an impact. This is evident in the cases and demonstrates the idiosyncratic implications of strong embeddedness trans-contextually.

It is important to stress the character of what the actors are embedded in. The actors are tied into the home HDR-institution, which is highly standardised and applies one approach only, an institution which not only has spent years removing adaptive capabilities, but which, as a consequence of improving its replication capabilities, has removed any sensitivity to recognising trans-contextual differences and subsequently recognising what it should adapt to. This directly affects the ability to take advantage of embedding territorially, which in turn determines the way the HDR is forced to deal with isomorphic pressures. This is particularly visible in Case A, where ALDI keeps a distance and needs to buffer isomorphic pressures. In Case B and C, the same approach became more difficult to apply. Given the close encounter within the respective host organisations, the HDR organisation was exposed more directly to isomorphic pressures which were difficult to buffer.

The legitimacy it can derive out of the context is directly affected by the way it deals with isomorphic pressures as it defends itself against taking on and be influenced by external values and standards. This is probably most noticeable in Case A, where ALDI deflects demands made by unions for years related to applying German control standards in the stores. It leads to ALDI being perceived as non-conform and generates a significant loss of legitimacy, which in turn made the unions focus even more on the practices ALDI deployed. Case B and C offer similar evidence, e.g. being insensitive to, or not having the capability to adapt to, isomorphic pressures, causes significant loss of legitimacy, which in turn impacts on leadership capabilities. In Case B and C this loss of legitimacy is significantly weakening the position of the expatriates.

The increased level of territorial embeddedness in Case B indicates how the merge with TSC affects the balance of being under local versus being under global influence, but it also indicates how difficult it is to manage global and local embeddedness simultaneously to generate a blend as would be required by glocalisation. However, it does confirm that the shift between different forms of embeddedness exposes the HDR to disembedding as noted by Heidenreich (2012). And, the need to be sensitive to legitimacy loss, emphasises the need to place competencies at central level to manage the blending process, first step being to recognise that legitimacy loss is a real risk.

6.3. TRANS-CONTEXTUAL DIFFERENCES

This Section will describe how the MaxRep concept deals with the three trans-contextual dimensions and benchmark the approach taken against the glocalisation concept. The three dimensions were identified in Chapter 3.5 and validated in Chapter 5.8. The discussion will be informed by the case briefs and cross-case analysis in Chapter 5. The main points resulting from this discussion will be summarised in Section 6.3.4.

6.3.1. CONSUMER CULTURES AND COMPETITION

Scanning across the cases, several points illustrate how the HDR reacts when dealing with differences in consumer cultural:

- Lack of a local input to assortment selection: the way the assortment was selected is partly experimental, almost random and consumer input is not sought. Case C demonstrates how range selection is processed very quickly. Local input is sought more specifically in Case B due to involvement of the TSC merchandising team, which to some extent provided local input. However, a general unwillingness to seek local input, for instance in Case A to benchmark against market leader NETTO and CB's questioning response when the suggestion was made to seek customer insight in Case C. Similarly, the BDE was surprised when CM in Oman in Case B carried out customer survey as he was not familiar with this approach.
- The framing of host-market assortments: is determined by what is offered in the home market with little reference to what works in other countries: in Case A, not being allowed to list milk/butter, the number of SKUs and centrally deciding upon the timing of the launch of fresh, frozen, bread and meat range extensions in Denmark demonstrates a global/standardised approach to range management. The listing of private-label, and store layout being copied from the UK together with store size and car parking in Case B, further demonstrates little reference to host-market conditions.
- Store brand policy: in Case B the attempt was made to try to sell second brands and private-labels if they met with low cost criterion, the team was expecting consumer resonance based

on price performance and introduced private-label at an early stage, over-estimating store brand strength.

- Service levels: in all cases the service level is standardised, tills are standardised in Case A even though Danish customers were accustomed to a different service level. Till design and service was also an issue in Case B and C, where consumers were often expecting bags to be carried to their cars or customers were left to load their trolley themselves even though they were used to being serviced.
- Store interiors and fittings: consumer reactions to store interior in Case B when met with design leaning onto Western European standards indicates that consumers were expecting to find 'cheaper' interior, indicating that local standards were not taken into consideration.

Seen from a glocalisation perspective one can question if sufficient attention was given towards creating a commercial offer which would call for local resonance in all three cases – beyond offering lower prices. Especially the setting of the SKU-count with reference to ALDI in Germany, which penetrates all cases, was very questionable. Leaning on a home-market and post-war situation which allowed ALDI to establish high sales through a very shallow product range may be an approach which only works in this specific context. The shallow range was seen as the backbone of the concept, however, sales in NETTO, for instance, with a significantly wider range, suggested that consumer cultures were different in Denmark. Local territorial embeddedness was deliberately avoided. There was no systematic approach or initiative to adapt to these differences at all as one would have expected if applying a glocalisation approach. Glocalisation would have aimed to obtain for the best price-convenience balance for the Danish market considering added sales and costs of carrying a wider range. The societal embeddedness of key actors in the HDR concept in Case B and C implied that this approach was transferred, the range shallowness was never discussed in the context of consumer behaviour or competition. Car-parking was offered to consumers in Oman but not to consumers in Jeddah – simply because expatriates in Case C were influenced by what was done in the UK and CA/CB were basing the KSA approach on what was done in Turkey and Columbia. Both cases illustrating that the societal embeddedness of actors within the domestic corporate entity meant they decided against seeking local input.

The Pan-European synchronisation of range extensions is another example of how the global approach was executed in Case A without reference to the local consumer preferences. The late introduction of new products relative to consumer expectations and competition were a result of inflexibility from central offices. A glocalisation approach would have demanded that local consumer requirements would have been considered more carefully, with considerations of expected gains in sales to be judged against the costs of introducing products at different times in some countries.

These are a few examples of many outlined in the cases which demonstrates how the MaxRep approach and the urgency and cost focus embodied within it dismissed attention to local consumer cultures as the diversity, added time and costs resulting from seeking local input did not-conform with the MaxRep concept.

6.3.2. STAGES\PHASES OF DEVELOPMENT

A second trans-contextual consideration is the development 'stage' or 'phase' of the HDR market as portrayed in the cases. With reference to the stages outlined in Chapter 4: ALDI (Case A) represents the mature home\domestic market, and the transfer in Case A from Germany to Denmark is comparable to some extent with the transfer from Denmark and the UK to Oman in Case B, given that the expatriates were societally embedded in ALDI Denmark and LIDL UK, respectively. The expatriates and the consultants in Case C were societally embedded in the ALDI concept, however, they had also experienced emerging market start-ups prior to their engagement in Case C. The markets and stages can therefore be described as:

- Mature, domination stage: German home market (Case A).
- Stabilisation/control stage: Danish host market (Case A).
- Host-market start-ups: stabilisation stage Oman and KSA (Cases B&C),

Referring to the considerations of consumer cultures (as noted above), one needs to note the dependencies here. The two dimensions are closely related, in particular when looking at the effect of the early start up stages in Case B and Case C. One notices the very strong pressure for growth in Case C leading to a very brief encounter with the stabilisation phase, leaving little time for any in-depth consideration of potential market response to the standardised retail formula. The focus was on entering quickly and sizing-up the concept based on a retail formula mostly copied from 'home' (Case A and B) or otherwise decided upon by reference to what had worked in a different context (Case C). None of the key players involved seems to have had sufficient capability or the motives to look closer at consumer cultures or were in general seriously considering if the retail formula resonated with consumers in the actual host-market context.

This is a consequence of the key actors coming into these early (start-up) stages from having been mainly exposed to later (stable\mature) stages and not having been directly part of start-ups before. This was the situation in Case B, however, this was different in Case C. Here the consultants as well as the expatriate COO had all previously been involved in start-ups. However, whereas the reference point for the consultants was having seen the standardised approach work in Turkey and Colombia, the COO had experienced the standardised approach of ALDI not gaining much resonance in Denmark (in Case A) and in Oman (in Case B). This gave rise to different views on how to approach the start-up in Case C and indicates how societal embeddedness influences the capability to bridge the stages. However, there is evidence that consultant A drew on his multi-stage experience, as having seen earlier versions of the German stores and knowing that private-labels could not be introduced from the out-set, he influenced the location and range decisions in Case C. This stage-sensitive behaviour is closely linked to making glocalisation work as it attends to trans-contextual differences, however, the value of prior exposure is very dependent on the specific exposure carried by way of societal embeddedness.

In Case A for instance, one notes the agenda-setting influence from head office emphasising the focus on operational efficiency and costs, which results from the upstream focus within the control and domination phase in the German home-market context. This focus is transferred cross-border by the centrally and societally embedded actors, e.g. the member of the executive board of ALDI, who are embedded in the home institution while deploying policies and standards in the host countries. This leads the emphasis away from market-derived issues affecting top-line performance and becomes part of the failure to deliver value-added benefits as it locks the Danish strategy into an inappropriate stage-emphasis keeping it from readdressing issues relating to the appropriateness of the value proposition. The effect of the linkages to the strategic context determined by the home context clearly overshadows the perspective in the host context.

Seen from a glocalisation perspective across all three cases, it is noticeable that the early stages are rushed, or even pushed aside, by a drive forward which can be explained by the conceptual requirement of MaxRep to apply down-stream values & norms, thinking, methods and operational manuals with which key actors feel familiar and can transfer the HDR institution they have been exposed to and have executed upstream. They are demonstrating their organisational legitimacy via MaxRep. Consequently, the start-ups bypass or at least shorten the early stages (of concept development) and the re-definition of the value proposition is short-changed during this stage which might otherwise have secured alignment with local consumer requirements. There may not be case evidence to back-up that this is also what has taken place at the start-up stage in Denmark in Case A in the early 1980s, but given the contextual similarities, it may well have been a similar situation.

The transfer of MaxRep prevents the re-definition of the HDR retail formula in this first (entry) stage and it may be hard to return to and re-address the impact earlier stages might have had downstream as is evident in Case A. The copying of an upstream structure imposes a straight-jacket on what otherwise would be a stage where concepts could have emerged in-situ from and aligned with the local context – this forms part of the Structural Paradox. The competency network in ALDI/Case A have the same ‘stage lock-in’ effect as it holds a focus on deepening existing corporate capabilities and sets standards related to the currently dominant capabilities which are relevant in the home context and which are intended to drive efficiency deepening specifics related to operational standards and procedures before being deployed globally. The application of the same organisational structure is another example demonstrated in Case A, when the appointment of a Marketing Manager was reversed reinforcing standardisation. The (standardised) strategic perspectives driven out of the home-market context are at cross-purposes with the requirements of the host-market context.

6.3.3. DOMESTIC SUCCESS AND BRAND STRENGTH

Home-market success and brand strength are sources of legitimacy and provide an entitlement to lead the host organisation. These factors are instrumental in legitimising the position of central management. They influence the confidence and conviction with which the retail formula and institutional HDR is transferred into the host market and ultimately strengthen the societal influence of the MaxRep approach. Home-market success and brand strength legitimise the application of MaxRep – a central force in enacting the transfer of the 'global consumer offer' and 'upstream stage focus' as outlined above. However, in Case B, compared to Case C, it also influences the willingness of expatriates and central executives to seek buy-in and place ownership within local institutions. Leaning on home-market sources of legitimacy impacts upon management awareness of the need to rebuild legitimacy at local level.

These legitimising forces help to execute MaxRep, however, there are examples in the cases, where leaning on success and brand strength, established in the home context, but not yet rebuilt in the host context, leads directly to misjudgements of the local situation. Referring to home-market success when comparing local solutions to global ones, generally leads to a bias towards choosing what has been successful at home. Examples of out-of-context decision making include:

- Over-estimating the strength of the private brand: assuming that it extends into the host market. This is demonstrated in Case B in Oman where private-label is introduced without sufficient own brand strength, and in Case A, the de-listing of national brands to boost private-label sales, without considering the overall effect on the store banner attraction and strength.
- Over-reliance on price differentials: evident in all cases, specifically not being able to offer a significant price advantage at the early/mid- market stages to compensate for a shallow range. The perspectives taken on price-setting is based on the assumption that consumers in the host market will show the same price-sensitivity as consumers in the home market and that an aggressive price offering in the host market can be established from the outset.

Leaning on sources of home-market legitimacy established in Germany is highly contestable and is an unwanted side effect of being heavily societally embedded in the home market. It generates insensitivity to managing legitimacy issues locally – illustrated in a lack of awareness of local sources of legitimacy and not make use of mimicking to attain legitimacy. Given that the HDR acts as if it has the same legitimacy in the host market as it has at home, it is vulnerable to not obtaining sufficient legitimacy in Denmark (Case A) when transferring operational standards which if placed in this different context may in fact require higher legitimacy. These issues are also clearly visible in Cases B and C as inter-institutional distance between the hosting organisations and the HDR team limits organisational legitimacy.

Beyond considering elements of the retail offer which are less transferable (like brand strength) and which can leave the HDR in a vulnerable position should it refer too much to the home-market context, wider institutional differences will impact on the way the HDR is perceived in the host context. As becomes visible in the cases, it is important to look at the HDR's institutional societal ballast – i.e. the home-market cultural 'baggage' which it carries, and which is imposed on the host market. The HDR may struggle to synchronise the transfer of these 'foreign' elements with the sourcing of legitimacy in the host market. Some sources of legitimacy are not instantly attainable, while some home-market societal ballast might be instantly transferable as part of the retail formula.

Given the new institutional structure in the host market, combined with the strong societal embeddedness of key actors in the home market, MaxRep will in general underestimate the response needed to the cultural content in the retail formula, as it will not have the capability to filter-out the behaviours likely to fall outside the normative frame in the host environment due to an embeddedness imbalance. The underlying righteousness attached to applying a global HDR approach - due to the high home-market societal embeddedness of executives - will translate into pressures to accept the global and centralised approach as is evident in all the cases. Given the cultural setting in Cases B and C, the HDR institution and retail formula will have been perceived as being very specific and rigid, illustrated by specific purchasing procedures, cash management policies etc. Similarly, the expectations of the HDR team from the host organisations in terms of working hours and applying a Germanic discipline and attention to detail were not aligned with the norms and values in the host countries. German controls in Denmark were seen as being mistrusting, and criticising working hours in the Middle East was perceived as disrespectful.

While it was possible to buffer the direct impact of the transferred HDR institution on the wider institutional landscape in Case A, this was more difficult in Cases B and C as the HDR institution was embedded deeply into the host organisations and interacted directly with the local institutions. Mimicking their standards and norms was consequently important and could have been used as a source of legitimacy. However, the adherence to HDR-driven norms and standards made the step to pick-up local ways, norms and standards difficult for the expatriates, as is indicated by the purchasing procedures in Case C and the general operational procedures of TSC in Case B.

The inability to lean on legitimacy established at home also explains why ALDI was misguided by transferring the critical German business culture to Denmark in Case A. The public, not carrying the same high loyalty to the store brand compared to what was achieved in Germany, were more sensitive and reactive to the transfer of foreign HDR operational standards and norms, which led to a call for a general boycott of the stores by the media in 2012 as outlined in Chapter 5. The fact that ALDI consistently insisted that established standards, carrying home-cultural weight, were to be used in Denmark, demonstrates the insensitivity to trans-contextual differences.

Returning to the buffering in Case A, this home-made way of dealing with inter-institutional differences also impacted on network embeddedness within the wider institutional environment. Here distance resulted in isolation and the blocking of isomorphic pressures, which apart from keeping the host country at a distance, also removed the ability to mimic behaviour to gain legitimacy. Drawing on the home-market legitimacy and embeddedness constellation (i.e. being highly successful and detached from consumers and institutions), ensured that ALDI copied the same behaviour abroad, not realising that not mimicking had a profoundly different effect in the Danish context.

This behaviour made ALDI take a particularly suspicious perspective on union relationships and collective arrangements in Denmark, expecting unions to take a similar stance as in Germany. This limited network embeddedness and set up barriers to establishing a good relationship with these institutions in Denmark.

6.3.4. SUMMARY

Summarising Sections 6.3.1 to 6.3.3 indicates how the trajectory of MaxRep affects how trans-contextual dimensions are perceived and illustrates the 'transcending properties' of MaxRep:

- **Consumer Cultures and Competition**: too little attention is paid to realigning the value proposition to the host context, the global approach of MaxRep avoids paying attention to individual markets and re-defining the retail formula. Central management is inflexible with regards to the definition of the value offering, which is mainly driven by the application of a global approach, limiting local market fit in what in a multi-country setting results in 'lowest common denominator marketing' only. Input on consumer behaviour beyond the revision of sales figures is not actively sought, network and territorial embeddedness to local consumption cultures is avoided. In contrast, glocalisation would need to address the tight definition of the value proposition as it is tied into the infrastructure established by MaxRep to allow for a broader redefinition relative to the host context, central marketing mix elements being SKU-count, timing of range extensions and service provided.
- **Stages\Phases of Development**: an operational focus from downstream stages, applied at home, copied upstream into the host context results no matter its 'position' in the market provides a focus on how well a defined retail formula is executed (efficiency) rather than re-defining a retail concept to suit local market needs (effectiveness). This approach does not allow for a downstream focus on re-defining the retail formula to reflect the stage of

development of the concept in an individual market. Centralised concept development emphasises ‘more efficiency’ instead, which provides a ‘straight-jacket’ to what otherwise could have become a market-focused approach derived out of the local context. The embeddedness constellation is instrumental to this ‘structural drive of strategy’. Exposure to multiple development phases and their different requirements within multi-contexts by some executives illustrates the positive influence of adaptive and glocalisation capabilities.

- **Domestic Success and Brand Strength**: Leaning on home-market sources of legitimacy negatively affects the awareness of having to rebuild legitimacy at a local level and leaves the HDR vulnerable to making unfounded decisions at the local level. The HDR is unlikely to quickly source local legitimacy due to the reasons mentioned in 6.3.2 above. Consequently, the host-context will be less overbearing towards ‘foreign’ HDR behaviour, which is transferred as part of the organisations societal ballast. Facing some handicaps with respect to the limited availability of host-market sources of legitimacy, it is important that the HDR approaches the host-context differently and is aware and sensitive to these trans-contextual differences. Given the inability, in the cases, to filter-out institutionalised home-market content causing inter-institutional friction as the societal domestic embeddedness is strong, MaxRep forces standards, norms and values onto the host-market context. Buffering the interaction with the local market may be a way to withdraw from and not let issues escalate, but it does not really resolve the under-lying deeper conflicts embodied in transferring the MaxRep concept.

In general, the transfer of the retail formula needs to be accompanied by a shift of strategy - from being resource-driven to initially becoming more driven by the value added it offers to local consumers in the host context. However, the ongoing deepening of the lock-in of MaxRep within the home-market context, combined with a highly global/central approach, means that the developments at home are at cross-purposes with the local requirements- illustrated by the way MaxRep perceives the trans-contextual differences.

6.4. CONSEQUENCES FOR THE APPROACH TO HDR INTERNATIONALISATION

The consequences of the MaxRep approach for the retail internationalisation of the HDR concept are compared with the alternative Glocalisation approach in Table 6-2 below.

Table 6-2: Comparison MaxRep Approach versus Glocalisation Approach along core dimensions of Retail Internationalisation

Dimensions	MaxRep Approach	Glocalisation Approach	Impact\implications
General Perspectives			
Global versus Local perspective	Globally coordinated to maximise utility – emphasis on reuse of key competencies (EDLC), with a focus on maintaining homogeneity to execute "strengths"	Balanced focus allowing for local perspective as well as global coordination, extent dependent on value-added benefits and specific issues	Over-emphasis on MaxRep applying the same operational efficiency from the start – and thereby by-passing early stages delivering adaptations
Centralised versus Decentralised Decision making	Very centralised decision making pushing the global agenda – local ingredients only if unavoidable	Centralised blending-in local requirements allowing for decentralised influence on key trans-contextual issues	Visible in A – transferring a global focus, distance to market makes sensing the dissonance difficult
Perspective on Market Fit (MF)	Perceived strength of concept and ability to apply MaxRep makes HDR ignore trans-contextual differences beyond immediate consumer product choice, pricing and advertising	Cost of adaptation versus benefits of added sales would determine level of MF sought, considering ability to shape local consumer cultures	Adaptive capabilities needed to glocalise, e.g. gaining market insights, predicting sales and securing mass-market position, assessing costs of adapting
Contextual Issues			
Consumer Cultures and Competition	Seeking to protect the global approach by attending only to immediate consumer differences, keeping offer un-augmented based on low pricing – limiting consumer input	Seeking input on core elements of consumer behaviour to blend with replication to increase local competitiveness of the offering and attain mass-market position	MaxRep leading to competitive disadvantage if market differences prevail - carries a significant handicap, being very reactive and slow to adapt
Stages\Phases of Development	Bypassing early stages and spends less time on these stages, not acknowledging phase differences to suppress adaptation to local market	Stages taken into account and managed in order to work through differences and seek MF, applying relevant capabilities to early stages to obtain market fit	Consequences for deployment of competencies reflecting difference in market versus operational perspective in stages
Domestic Success and Brand Strength	Tendency to lean-on success and brand strength at home as a source of legitimacy in the host market which influences the appropriateness of decisions made	Sensitivity to actual level of brand strength and success in the host market, awareness related to impossibility of transferring these traits, taking the impact of these gaps into account	Domestic success and brand strength as an assumed source of legitimacy is misguiding decision making, leaning onto home-market context is reinforced by societal embeddedness
Isomorphism and Market Legitimacy Considerations			
Context – Institution	Trying to ignore isomorphic pressures by buffering – but does not really resolve legitimacy divides, which given the sources available in host context needs different management	Be sensitive to inter-institutional differences and that giving into isomorphic pressures may be needed to avoid legitimacy issues if other sources are temporarily unattainable	Isolation in A, comments about Danes in A, conflicts in B and C, leaning onto success and brand strength even though not present

Dimensions	MaxRep Approach	Glocalisation Approach	Impact\implications
Institution - homogeneity	Seen as fundamental to maintaining the EDLC strategy, main driving force behind MaxRep, securing ease of execution and control	Diversity seen as necessary to maintain adaptive capability based on inter-contextual assessment, awareness of costs of adapting	Transferred by way of societally embedded key actors which are highly influential in the host-market diversity suppressed/kept outside
Isomorphic Pressures	Avoiding isomorphism by buffering – sheltering of external institutional demands, but unable to resolve and clearly impacting on sales/loss of legitimacy in mature market	Adjusting isomorphism using different types of embeddedness to control the blend of central/local influences, boundedness and strength of pressures and potential adaptations to avoid loss of legitimacy	Being perceived as a foreigner would isolate the HDR, and non-mimicking behaviour affects the legitimacy perceived given to the HDR and must be avoided
Sources of Legitimacy	Tendency to lean onto legitimacy-structure obtained on home market – before it is actually attained in the host country	Seeking other sources of legitimacy to compensate for legitimacy structure in early stages in host market, applying context-sensitive management	Case A shows that this lean-on does not work locally, internal issues in B and C indicating early signs of upcoming legitimacy issues
Embeddedness Processes			
Societal Embeddedness (SE)	Superposition of domestic SE and NE to maximise central/home societal influences driving the strategic trajectory in support of a global approach	Balancing of societal and network/territorial influences aligned with requirement to blend standardisation with adaptation, high awareness of societal influences, controlled NE to secure local influence	Requirement to alter/moderate societal input if a different blend is required of central/local input, also to control internal legitimacy
Network Embeddedness (NE)	Overlay to support central SE, internal homogeneity (global perspective), i.e. network to HO strong and limited/buffered to territories	Constellation to support the optimal blend for a given country/context, standardisation/adaptation forces are not perceived as exclusive	Openness to gain local input as requirement to adapt to specific local situations arises. Purposeful, supporting blend of influences
Territorial Embeddedness (TE)	Avoids becoming territorially embedded into any environment as such ties heighten trans-contextual influences and ultimately weaken the strength of the strategic trajectory	Seeks to be as territorially embedded as it needs to be, aiming to establish a favourable blend of local/global input required and the impact it needs relative to the trans-contextual constellation	Awareness when/where it can gain from being territorially embedded as local NE/TE makes demands on adaptive competencies and needs constant adjustments

Alongside the historic and societal ballast perspectives from 6.1 and 6.2, it becomes clear how MaxRep has evolved as a strong trajectory causing trans-contextual ‘blindness’ which has a number of consequences as illustrated in Figure 6.1:

- MaxRep dominates and the focused development of replication capabilities and supresses adaptive capabilities, which in turn limits glocalisation capabilities. With the loss of adaptive competencies, the HDR has only limited sensitivity to trans-contextual differences.
- Insufficient attention is consequently paid to obtaining market fit, which will surface as an inability to adapt the retail formula and obtain a relevant mass-market position. MaxRep will be unable to approach adaptations beyond what is framed by the home context to seek a mass-market position in the host context.
- As the HDR suppresses glocalisation capabilities, the home-market-defined cultural content will be transferred unfiltered to the host market and will be met by increased isomorphic pressures. Given the lack of adaptive capabilities, the HDR has an inability to take-on these pressures and they are consequently buffered by MaxRep. Inter-institutional conflicts remain unresolved and the HDR is ultimately vulnerable to a loss of legitimacy.

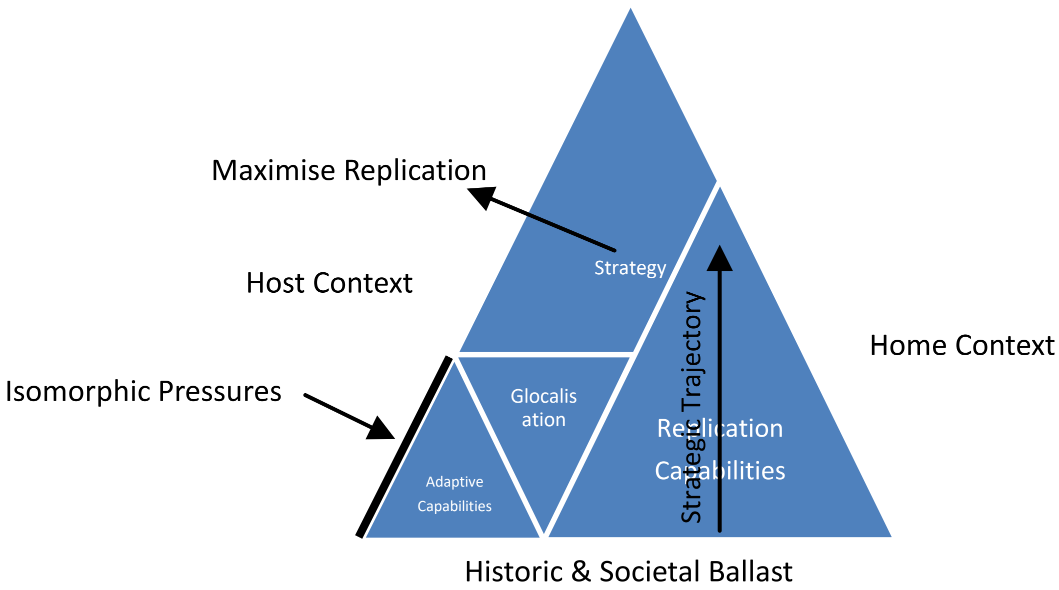

Figure 6-1: MaxRep as Strategic Trajectory in Transformation Triangle

The degree of embeddedness of the HDR organisation in the home-market context (as outlined in 6.2) drives the strategic trajectory and leads to the direct transfer of the retail formula and the transfer of (domestically derived) assumptions related to success, brand strength and sources of legitimacy. The executive actor is to a certain extent 'acting as if at home' and is not taking into account the local context. Applying this approach to markets which are different, could be termed a 'pseudo-approach' to HDR internationalisation. The ultimate consequences of MaxRep, aiming to exploit a multi-market global situation, are:

- It will replicate itself quickly, and if met with similar contextual requirements, will be highly successful as it will be very focused, not spending time or resources on considering adaptations. The entry of ALDI into Belgium (Case A) is a case in point.

- In contrast with the above situation, if met with significant trans-contextual differences, adaptations will be slow to emerge as appropriate reactions would require the establishment of adaptive capabilities first, which in addition would need to be 'commonised' in a global multi-country setting. The incoming HDR is therefore likely to carry a big handicap in terms of its ability to adapt compared with an incumbent HDR. This is illustrated in Denmark (Case A) by comparing the market leader NETTO with ALDI.
- Seen from a central perspective, this local weakness might be acceptable as long as the overall global direction is successful – in Case A one could argue that it was better to not engage in adaptation as long as these capabilities were only needed in Denmark and a few other countries. This implies that as long as the dominant part of the business is placed on home soil, it may be inclined to ignore this weakness.

The resistance to adaptation arising from the MaxRep approach is likely to cause an in-market reaction and the HDR will struggle and be frustrated with the standardisation/adaptation tension as it cannot become creative in the market given that adaptive capabilities are under-nurtured. It will consequently loose out in markets where adaptations are required and can at best try to make up for this by performing better in markets where it can be standardised.

In some countries under-performance may not be seen as a reason to adjust MaxRep, especially if the cause for local failure is judged from a central perspective which can deviate substantially from a glocalisation perspective through self-reference criterion (SRC). According to the author's experiences, judgements on local 'misfortunes' will, from a central perspective be made with reference to the home context where the MaxRep approach has been – and possibly is becoming increasingly – successful. In contrast, local management, take a perspective closer to glocalisation as they are more strongly influenced by the local context and will have a different view on the same situation (see Table 6.3). The gap here reflects the different influences enacted by the embeddedness constellation. The MaxRep perspective will sustain and cause a lock-in as long as the constellation remains in situ and the existing flow of influence is maintained, meaning that the HDR can accumulate an under-adaptation loss over the years, measured by sales contribution and local personnel turnover.

Table 6-3: Self Reference Criteria Perspectives of MaxRep and Glocalisation applied to key HDR dimensions

Dimension	MaxRep/Home Perspective	Glocalisation/Host Perspective
Sales under-performance	Too little EDLC focus – introduction of more cost control to deliver lower-priced offer which in turn will drive sales, replacing some products within the range is a way to increase sales	Offer needs to be adjusted to the local consumer culture – customers may not resonate with price alone, but may look for deeper assortment to gain more convenience
Extension of range/SKU-count	The number of SKUs works for MaxRep across the countries – so it should work in the host market as well. Discussing this at local level will lead to the executives not focusing on efficiency	Adjustments to the range may be needed in line with an assessment of local shopping habits and a requirement to offer more of a one-stop shopping experience in specific countries
Seeking consumer input	Sales figures revised frequently, no further consumer input needed within the EDLC frame, consumer input is measured by product category & product sales, more input would undermine the global approach	Consumer input will advance the range definition particularly at the out-set/start-up as securing a mass-market position initially is vital, defining wider framework for redefinition must be aligned with significance of market differences
Brand strength	Something we already possess or will gain quickly based on strength of offer transferred from our home market, customers will learn to appreciate our offer in the same way as they do at home	Needs to be built from scratch by way of gaining resonance to the offer first, home-market brand strength has limited value in the host market, realising this emphasises the need to rebuild and adapt to the local situation
Service level offered	Like at home, adaptations should not be needed, customers will understand that they need to pack purchases quickly themselves and that the service level is low as we need to deliver the low-price offering	Aligned with consumer expectations defining what is acceptable locally for an HDR, the service level offered should be understood and customers may need to get used to the HDR way over time if the concept is new to the market
Store atmosphere	We apply the same in-store interior and signage globally, customers in some countries may be used to different flooring, colours or signage, but this is a detail and can be ignored	Customers perception of store interior is important, we aim to leave a similar impression, which implies that we may have to adapt the layout, flooring, signage and colours
Transfer of operational standards	They work at home, so they will work in the host market and will aid globalisation, they need to be transferred fast in order to establish solid and efficient store operations	Operational standards can be transferred if needed, the need and design of the operational standard derives out of market requirements as well as efficiency considerations and will evolve over time

The above differences in perspective, combined with the general impact of the home-market context and domestic success, on the host-market strategy and the lean-on effect, can trigger an inverse effect on performance, e.g. the global HDR reinforces the same global approach even when it met with failure or underperformance. It does not attend to areas which are not defined as issues at home and which the organisation has no capabilities to deal with anyway.

6.5. RETHINKING HDR INTERNATIONALISATION

The force of the strategic trajectory (MaxRep) measured by the 'transcending' of trans-contextual dimensions illustrates how the level of operational dedication, brand strength and success obtained in the home market provides a substantial momentum. The strength of this strategic trajectory - the more mature the retail formula is at home, the more dedicated and context-specific it has become, the more history it carries and the more it has institutionalised this character within itself - the more forcefully it will aim to transcend differences it should otherwise sense and adapt to. Instead of looking predominantly at the host context, the strategic trajectory emphasises the need to consider the standardised position it is 'adapting out of' first, rather than what it is standardising or 'adapting into'. In fact, the former might prove to be the big challenge, as it is the imbalance of competencies established at home which affects the ability to glocalise.

The drive towards standardisation is consequently driven by how standardised the strategic context has become in the home market, and the strategic outlook granted by the strategic trajectory does not allow for sufficient consideration of trans-contextual differences. And, assuming that the trans-contextual differences are significant, the strategic trajectory has the impact of inversing the success the HDR experiences in the home market. This finding does, at least initially, override the importance of market homogeneity and the argument that standardisation can be derived from the convergence of consumer culture as envisaged by Levitt (1983). When home-context-derived dedication and the established institution in general drives the internationalisation, then standardisation is derived from an incapability to sense, assess and adapt to trans-contextual market differences, the significance of these differences is then of second order. The HDR is simply 'blinded' to these differences. The declaration, in line with Levitt (1983), that markets are similar or that consumption cultures will converge, is a self-supporting act of protectionism, reflecting the fact that the HDR will expose its incapability to adapt if it fully acknowledged trans-contextual differences. The perception of 'reality' is made to match the imbalance of the forces within the trajectory.

In addition, this thesis also highlights that the dimensions which the HDR needs to adapt to reach beyond considerations of consumer culture or socio-economic differences. Given the character of the trans-contextual dimensions identified in this research, processes and stages are identified as further issues for consideration. Even though MaxRep – here presented as the 'most pure' standardisation stance imaginable within international food retailing – involves adapting certain elements of the marketing mix, the MaxRep approach considerably limits the strategic response to these differences. As some dimensions are process related and generic to internationalisation, this represents a systemic shortfall within this approach. As indicated in **Error! Reference source not found.** below, referring t o the standardisation\adaptation matrix (Figure 2-1) adopted from Birnik & Bowman (2007) and Schmid & Kotulla (2011) discussed in Section 2.2.2, the narrow approach taken by MaxRep limits the local flexibility within the standardisation/adaptation matrix because the strategic trajectory frames the responses that the HDR can consider. Rather than applying a glocalisation approach, which would blend adaptation and standardisation advantageously as in the upper right corner in Figure 6-2, MaxRep places a restriction on the options as indicated by the blue area. MaxRep restricts the flexibility along the adaptation axis, which restricts that ability of blending adaptation and standardisation, i.e. to have an overall positive impact on both dimensions as indicated by the red arrows in Figure 6-2. To do so, one would need to be aware of the 'systemic' impact standardisation/adaptation has in a trans-contextual set-up, taking into account the core strength of the business model to be transferred.

As the findings here illustrate, caution is needed when standardising trans-contextually compared

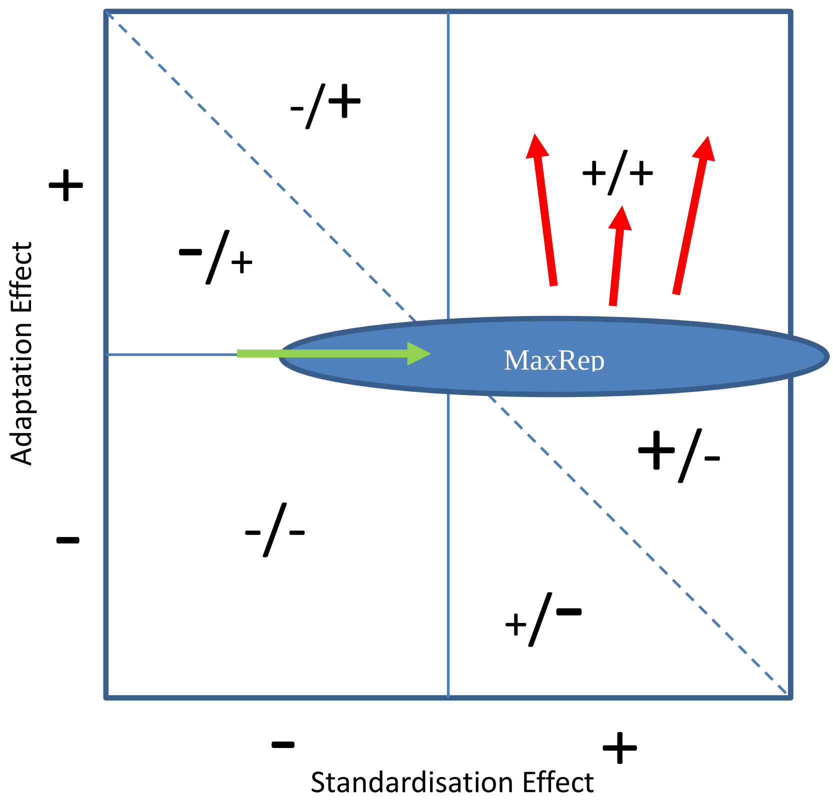

Figure 6-2: MaxRep in Standardisation/Adaptation Matrix

with when the HDR can replicate when not crossing contextual divides. Referring to Table 1-1 and the considerations of where conceptual efficiencies are gained within the HDR business model, this draws attention to at what level within the model that standardisation is deployed and if standardisation is crossing contexts or not. For instance, this allows one to characterise standardisation at store- and RDC-level in the home context as unproblematic but recognise that caution (and flexibility) needs to be applied when crossing the contexts like when range decisions are fixed on a Pan-European scale. The point relative to the MaxRep theme is that it irrespectively imposes a standard, it systemically over-standardises. Not only does it not do so cautiously, but at the same time excludes itself from reaping the fruits of standardisation (within a local market) by not aligning itself fully with the local market. Referring to Jonsson & Foss (2011) and the 'flexible replication' theme, the research here suggests that flexibility, and therefore some level of glocalisation, should be applied in such a way that it considers the systemic impact that standardisation/adaptation incurs.

To illustrate this argument, we pick a case in point: if the standardisation gains, as applied where they really matter at store and RDC level, are greater than the loss incurred by deviating from standardising trans-contextually, and the effects of adapting are positive in terms of establishing a better market fit, then the HDR will move into the upper right corner of Figure 6-2. This demonstrates the glocalisation approach. An example would be the SKU count, which was regulated globally by ALDI. If it was to leave the decision of how many SKUs to merchandise to the local country management, and assuming that they would be able to align this dimension with the local consumer culture and succeed in increasing sales, then standardisation at this level across markets would have been reduced, but the systemic and overall effect of standardisation would presumably have increased - as this would channel more volume through the warehouses, logistics and store layout which were already standardised in Denmark and consequently aligned with the higher sales density achieved in Germany. This example indicates that it is the lack of a value-adding perspective driven by consumer input which is missing.

The HDR will have to be aware of the emerging nature of standardisation driven by MaxRep, not only as it applies the same standards across different market contexts, applying the lowest common approach, but more importantly it should be highly critical of the transcending perspective which emerges on trans-contextual dimensions embodied within the strength of the strategic trajectory. This approach is institutionally led and caused by the imbalance of the competencies within the organisation and the historic ballast. Trans-contextual differences are subjectively viewed by the central organisation with very limited competencies to read and relate these differences to the value proposition.

6.5.1. GLOCALISATION, BLENDING-IN THE CAPABILITY TO ADAPT

The SKU count is a perfect example of how the HDR "reacts to counter-acting forces" as Matusitz & Reyers (2010) phrased the blending capabilities framing the glocalisation theme. With reference to Table 6-2, one can outline what moving from MaxRep towards Glocalisation entails:

- Becoming sensitive to trans-contextual differences, when and if they are relevant and understanding the nature of these dimensions and developing competencies to sense and assess these and relate them to the value proposition. This would include seeking very specific market insights on shopping behaviour and consumer sensitivity to low pricing and would, as a prerequisite, demand a much more balanced constellation of embeddedness. The cases indicate that embeddedness locally is required but needs to be purposeful and well-aligned with the specifics of the HDR value proposition and co-developed with the competency to adapt.

- Being aware of the impact of the strategic trajectory, history and ballast and the imbalance of current competencies. Seeing how these pre-disposes the dominant perspectives, as outlined in the application of self-reference criteria in Table 6-3, and the ability to pick-up trans-contextual differences. Referring to the main dimensions in Table 6-2, this includes the view on market fit and generally on the global approach. This may be the most difficult realisation to make given that the same qualities are so fundamental to success at home. Clearly, it will be a challenge to the suppressed trans-contextual management capabilities at home.
- Establishing a process-orientation to observe the shift in foci between the stages and the impact they have on the organisational competencies required. Even though these changes are relatively slow within the same context and take place over years or even decades rather than months, given the multi-context set-up, agents need to navigate swiftly and confidently within these stages & contexts. They will need to understand what the local situation demands rapidly and be able to bring relevant central competencies in swiftly to make use of the global competencies they have attained at central level, but at the same time filter out unwanted ballast.
- Making embeddedness support the potential creativity which can be derived out of the juxtaposition of forces as indicated under the first bullet point above, rather than just wanting to ground decision-making in the home-context. Executives need to be exposed to multiple environments and enabled to embrace the current situation more completely from various perspectives to a relevant level. Societal embeddedness is instrumental in the transfer of the retail formula, however, it simultaneously transfers specific foci and an agenda which if not suspended and blended with network and territorial embeddedness are inappropriate in the host context.
- The HDR institution needs to allow for this ‘creative tension’ between the forces of standardisation and adaptation, it needs to allow diversity to disrupt homogeneity at least in part of its organisation - this would also mean that it should de-institutionalised and stage the forces behind MaxRep. Making the definition of the value proposition/retail formula more context-sensitive would be an important central step in this direction. The example mentioned above with the SKU count suggests which elements need to be

considered, however, the process must encounter the entire approach, marketing mix, store image and operational standards.

Responding to the request of Chinomona & Sibanda (2013) to look at the particular responses relating to adapting marketing mix elements, and related to the above five points, one can consider how glocalisation could have been applied to the policy on SKU count in Case A: ALDI would have to seek deeper input on the value/convenience response of the Danish consumer relative to the German consumer. It would have to recognise that the reason to standardise the SKU count is because it has worked in Germany for years, rather than in the host context, focusing on that it needs re-assessment in the host market. It would have to be open to developing adaptive competencies, admitting that it had become very good at running German operations, but at the same time less good at being flexible and innovative. It would further seek deliberate embeddedness in the host market, possibly seeking specific input on how Danes perceive ALDI, counter-balancing the home-perspectives transferred via the societally embedded actor with this local input and internally preparing the institution to make use of, rather than suppress, this creative tension; a process which clearly calls for fundamental changes and demands strong governance.

Referring to the advantage of involving locals, emphasised by Zhang & Wei (2015), one can take a closer look at establishing context-sensitivity. The criterion 'SKU-count' could have been transferred on various specificity-levels. Using a market-led definition would most likely have made local management choose an SKU count to secure the vital mass-market position. In the market-led definition one can aid the sensitivity to consumer behaviour, by framing it as '*setting a range which makes the HDR carry a convenient, yet shallow range*', or go even further, by taking into account the stage it had reached locally and defining it as '*setting a range which makes the HDR carry a convenient, yet shallow range considering current brand strength and success'*. The latter version points to the blend of private/national label and that the offer possibly needs to provide consumers with more range to aid attractiveness during the early stages in the market, while the value offer is still under-developed. The point here is that glocalisation would provide a dynamic and context-sensitive perspective that would crystallise when allowing for more tension between the two forces.

Seeing this linkage between product definition, the growing specificity assigned to the product over time in the home-market context and the same qualities embodied within the institutionalised processes which create it (Burgelman, 1991), is a pre-requisite to embrace what Jonsson & Foss (2011) refer to as 'flexible replication', or what Hurt & Hurt (2005) have named 'discretionary transfer', and, where the perspective delivered by Clark (1985) aids the product-central perspective when conceptualising the 'arrow core'. Central to these themes is what and how is the value propsition defined. The capability to re-define and build the proposition from scratch in a different context, needs to be pre-empted by a process of removing this specificity, to de-institutionalise and adapt out of an established structure, finding the way back to the arrow core and undress it, which brings the product closer to its origin, to its constitution or 'idea concept' as IKEA has named it, (Jonsson & Foss, 2011). This aids flexibility and facilitates a discretionary transfer and an in-situ re-application to a different host-market context.

To address the question posed by Chinomona & Sibanda (2013) of if the glocalisation approach carries any trade-offs, the answer is yes, of course it does. It is less global, more demanding, places more accountability locally and engages local management, and it might even be successful, if the opposing qualities described here can be held next to one another. And, if applied to similar markets, it will incur unwanted adaptation costs and be inefficient.

Similarly, would 'blending' dilute the competencies to standardise or to adapt? Referring to the example above about the number of SKUs, in this case it would heighten the standardisation effect at local level as the added sales would justify cross-border standardisation of logistics, store layout and equipment. Would deviating from setting the SKU count globally be a 'breach of standardisation laws' for ALDI? Maybe, but it would advance their adaptive capabilities as well. Given this perspective, and pointing at the difficulties encountered of transferring and positioning a hard discount formula as ALDI NORD has done in Case A, one can see that re-positioning the formula mid-market, may make the formula more globally applicable as it would possibly resonate better in more markets without demanding specific local attention to be placed relative to consumer needs, and more importantly, it would to a lesser extent lean on the re-establishment of brand-strength driven by a high private-label content; a point which contributes to explaining why LIDL has been more successful internationalising more recently (Weinswig, 2015).

6.5.2. STRUCTURAL PARADOX REVISITED

The impact of the strategic trajectory outlined in Section 6.3 confirms and further advances the insight to why the internationalising HDR is confronted with the structural paradox as identified by Aoyama (2007). The paradox is generated by the content of the strategic trajectory, the 'aligment with the home market' or 'ID' embodied within the retail formula and transferred institution, which is then projected onto the host-market context and causes an inappropriate and out-of-conext response. It is no coincidence that these responses are potentially more significant in markets which are more remote from home, like Japan and China for CARREFOUR and WAL-MART, or Oman or KSA for the HDR. However it is the level of dedication and establishedness in the home context and the capability to adapt out of this central level of specifity which determines the size of this differential in the trans-contextual perspective and ultimately the inappropriateness of the structure imposed upon the host context.

The glocalisation capabilities discussed above provide a way, if not to resolve, than at least to moderate the impact of this structure, which also seems to have impacted on the approach WAL-

MART has developed since its launch in Japan compared with the later launch in China (Matusitz & Leanza, 2009). This indicates that the structural paradox may not be completely unresolvable as indicated by Aoyama (2007), because:

- Part of the trans-contextual differences are temporal in their character, the global structure is still relevant, and what is required is a staged implementation and transfer. It is 'too much structure too fast' which is the main issue, not 'no structure at all'. But one would also not apply one standard to all countries simultaneously, as at any time the countries would be at 'different stages' and the approach needs to be adapted accordingly.
- Allowing for more trans-contextual alignment will ultimately also open up the need for local interpretations and execution of the retail formula, which may impact on the design of the structure as was the case in the example of SKU count. The countries may then also apply 'different versions' of the retail formula, which need to be governed centrally adding structure and complexity as is the case in IKEA (Burt, Johansson, & Dawson, 2015). However, the case of the SKU count also demonstrates that adapting and generating sales based on trans-contextual sensitivity increases the overall standardisation effect.

One can argue that an increase in SKU-count only really has a limited local impact but envisaging how various countries would argue their case to have more or less SKUs, one cannot deny that the HDR would have to have the competency to define some contingencies upon which to make the SKU count depend, a competency which is lacking in the cases discussed.

Finally, this research returns to what the author set out to uncover. We return to the statement made by Heidenreich (2012) on the retailer's ability to balance and build adaptive capabilities: *"These retailers shape the perception of organizational challenges, of the best or most appropriate organizational strategies and of the available resources. Faced with the uncertainty of economic life and the manifold coordination problems associated with innovation processes, companies tend to turn for guidance and orientation to established rules, social norms, practices and shared understanding"*. The HDR struggles to do what it objectively should be doing for obvious reasons. Rather it does what it actually can do, given the availability of competencies and ends up doing what it does best, in part, as it does not want to expose its incapability. It wants to feel comfortable and maintain the legitimacy it has gained in its home market.

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APPENDICES

APPENDIX I: REFLECTIONS ON THESIS *"DISCOUNT RETAIL INTERNATIONALISATION: BARRIERS TO THE DEPLOYMENT OF GLOCALISATION"*

MOTIVATION TO ENGAGE IN RESEARCH

A starting point in understanding my motivation to engage in this research, is to briefly look into my experiences and exposure prior to Case A. I was not a typical candidate for the role as Managing Director in ALDI Denmark. I was educated as an engineer and had spent 10 years in product development prior to my ALDI appointment, where the main task had been to align NPD with market demands. I had also led a start-up for a Norwegian company in Denmark; a task that had made me aware how assumptions carried across borders are critical to success or failure. The Norwegian head office hugely underestimated the task of gaining market access in Central Europe.

It was then, in 2001 that I engaged in Case A (ALDI DK), and was introduced to the highly efficient business model which had been developed on home soil in Germany. It was remarkable how well it worked, and seen retrospectively, this presented a clear contrast with how the concept worked in Denmark. In addition, the approach taken by ALDI contrasted significantly with the approach I had applied in my earlier career in terms of product development. And perhaps, even more importantly, it was upheld irrespective of considerable local input and resistance.

My subsequent engagement in two discount retail start-ups in the Middle East, Case B and C, placed me in a different position relative to driving standardisation/adaptation. In Case B, I had the role of driving standardisation against significant local input, and in Case C, I was placed more 'between' the local and the global position. Overall, Cases B and C made me reconsider the role I had had in Case A as they amplified issues, which in the start-up context may have been less significant but worked on a much bigger scale given that ALDI Denmark operated more than 200 stores. I decided to engage in this research, having completed Case B in 2010/11, and at that point my main motives were:

- The experience I gained in Case A (ALDI DK), with my local perspective, made it clear that ALDI lacked adaptation capabilities. There were clear indicators that we were approaching the market in a too standardised way; lacking resonance with consumers in general and experiencing low market penetration as a result. The responses we received from unions and other institutions clearly demonstrated an image of ALDI DK as a foreign company.
- The experience gained in Case B (TSC) subsequently made me aware of my own bias and societal influences through my exposure to ALDI Denmark. Upon reflection, my thinking was cognitively still framed by the 'conceptual' embeddedness in Case A. In a way one could say that I acted similarly towards personnel in TSC as ALDI head office personnel had acted towards me in Case A. The change of position here is significant as it leverages the learnings and aids a multi-positional perspective toward similar situations. It helped me to avoid a strong uni-positional bias and challenged me to exercise more empathy.
- My own product development background which, despite the more recent societal influences during my ALDI years, still made me question the very limited market orientation that ALDI showed in Case A. Having been exposed to highly market-driven NPD approaches, I was very sensitive to understanding that the approach taken in Case A was very different; there was a strong push in their approach. However, at the time, I was

unable to fully comprehend what made head office management uphold an unwillingness, or perhaps inability, to take a market-driven perspective. I was puzzled and curious, and at times highly frustrated, as this impacted negatively on our performance. I returned to this question after my experience in Case B, where I noted that I was behaving in the same way despite my experience, which would have suggested I should have known better.

- Considering the extent of losses and waste associated with applying a highly standardised approach in all cases, I began to question if there was a way to approach things differently. The impact on ALDI Denmark was enormous. Over the years it accumulated huge losses through missed opportunities to become a market leader, a position it had held early on, but which had been taken by NETTO. Case B incurred similar losses as we were unable to align the product range with consumer demand, and in Case C (DUKAN), consumer response to the concept remains weak and the price offer under-developed.

After engaging in the research, and as I gained more understanding of the embeddedness and institutionalisation themes in Chapter 3 during 2014/15, the logic for understanding what impacted on strategy development became clearer. It was at this point that the main approach of the research and the applied methodology was established. At this point the research moved beyond the discussion laid out in Chapter 2, which 'only' presented the two main positions of either standardising or adapting as choice-strategies. Chapter 3 gave a very different input that over-shadowed the former debate about whether to standardise or to adapt, because I realised that the HDR cases were simply not able to make a rational choice. The motivation at this stage was to understand and fully describe the causes that determine the predictability and foreseeability of how an HDR would behave strategically.

ENGAGING IN READING AND INTEGRATION OF ACADEMIC THEORIES

I spent considerable time updating my knowledge in 2011/12. A lot had happened since 1996 when I completed my MBA and I needed to get up-to-date on Retail Internationalisation in particular. In the following phase I focused on readings related to standardisation/adaptation (Chapter 2) and from 2013/14 on embeddedness/institutionalisation (Chapter 3). The latter represented more of a challenge as these themes were entirely new to me and considerable time was spent generating the required level of understanding. This period was quite frustrating as it felt like progression was slow despite spending considerable time on the thesis. However, the insights into the new themes were also taking the thesis to the next level, which led to a stronger understanding of how MaxRep as the dominant strategic trajectory colours the strategic outlook of the HDR. The concept of generating the juxtaposition between this outlook and the trans-contextual dimension was born.

I began to see how embeddedness and institutionalisation, beyond being themes that explain adaptive pressures on the organisation at the macro-level, are also important because they explain why the organisation, from a micro-institutional perspective, is strongly predisposed to standardise. There is clearly a great deal of overlap here between the themes of Burgelman (1983, 1991, 2002) and the institutionalisation/embeddedness themes. I had some difficulties untangling micro- and macro-level institutionalisation issues and struggled with the embeddedness theme because the concepts of societal, network and territorial embeddedness are not mutually exclusive, but are super-positioned by their nature. Still, I clearly benefitted from being able to apply this theme, and despite the overlap in the embeddedness classification, I was unable to re-conceptualise or otherwise make suggestions to improve this concept originating from Hess (2004). At times I felt tempted to use the term 'Corporate Embeddedness' as introduced by Heidenreich (2012), however, it failed to deliver the distinction between societal and network influences, which was useful to the application of the concept.

The co-evolutionary perspective derived by Burgelman (2001) was similarly an important input as it helped me to understand the 'intimate' relationship ALDI had developed relative to the domestic market in Germany. The relationship in ALDI DK was very different and ALDI consequently had difficulties dealing with the distance and perhaps even felt a sense of rejection that may have further exacerbated the difficulties.

When writing up the cases, I found that reflecting on the themes from this literature exposed all the issues, sharpened my perspective and helped me to understand the full impact of certain behaviour on the strategic outlook. It was a very time-consuming phase of the work – to put the pieces of the puzzle together.

CORE LEARNINGS

Having spent considerable time developing the core concept and methodology in the thesis, it was important to rest at this point for long enough to let the methodological concept mature. I learned not to force the work and to allow for clarity to emerge rather than to plan the development in full. This was critical to establishing my understanding of the embeddedness/institutionalisation themes well enough to apply them in the most appropriate way to the cases. It also allowed the conceptual framing of the juxtaposition, which I believe underpins the core learning in this thesis; i.e. to fully assess and understand the establishment and the impact of the underlying strategic trajectory on the way the HDR perceives and deals with the trans-contextual divide.

Having been involved directly in all three cases, it was a challenge to recognise the true character of the approach that was applied, because my perception at the time would have been that it was a 'norm', because I was totally immersed in the HDR organisation. What stands out now is that the training period in 2001/2, followed by a management position in Denmark, raised my awareness of the subtleness of differences and increased my sensitivity to be more able to see how a company acts. What felt right in Germany and was well aligned with market demand there, suddenly changed on my return to Denmark. I could initially not fully appreciate how significant this contrast was, but I became increasingly aware of the inappropriateness of the standardised approach as I gained insights to the responses among consumers and the wider institutional environment. My perspective developed continuously, even after I left the company in 2007, and looking back today, evolved significantly during my research.

Most significantly in Case A was the lack of recognition of market demands. ALDI was unable to think outside of standard procedures and could not consider fundamental marketing mix changes like altering the SKU-count. In Germany, the approach applied by ALDI worked well, but having been exposed to the embeddedness and institutionalisation themes, I began to see clearer what influenced the situation across borders and hence what had caused a grid-lock in Denmark. I understood how the different elements worked together; the Danish organisation was strongly societally, and network embedded in the "central" domestic market and management made constant references to the structure there, where ALDI was very successful and aligned with market demands.

But it was the exposure to the different positions, and the reflections on my own behaviour subsequently, in Cases B and C, which really elevated my awareness of the impact of embeddedness on the business. The role I took in these cases suddenly placed the concept-ownership with me while being embedded in an expat community of like-minded colleagues. As I suddenly found myself 'on the other side', the contrast in the roles I had in the cases highlighted:

- The importance of being able to fully appreciate the impact of situational differences and how easily the inappropriateness of an approach can be overlooked because we ignore trans-contextual differences even though they impact performance considerably. Attention needs to be paid to the behavioural output of the home-driven institutional character, the competencies at the central (originating) point, and the ability to understand and describe the way it deals with trans-contextual differences at the periphery.
- The ability to read your own behaviour and recognise the impact of societal embeddedness on your own perspective and agenda setting – consider what drives you and how your own assumptions and biases colour your judgement. From this societal ballast, which consisted of dedication to operational detail feeding the standardisation agenda, stemmed the inability to attend to the completeness of the situation on-hand. This drove the standardisation/adaptation balance towards standardisation. Reading my own behaviour in retrospect raised my ability to recognise points of exposure and changes of exposure. For instance, the impact of having been trained in Germany, pre-set my bias prior to taking on my role in ALDI Denmark. In retrospect it is almost perceived as having been 'brainwashed' because it was such a deliberate preparation to adopt a totally corporate ALDI-perspective. Upon reflection, this tells a tale about what German head office saw as the missing ingredients to making a success in Denmark; being able to execute the concept exactly as applied in Germany and emphasising operational efficiency, but not to contemplate adapting to market differences.
- I realised that the perception of the impact of market differences, relative to own strength, was insufficient to motivate ALDI to engage in adaptations. I developed a growing awareness of the lack of processes designed to take on market-driven perspectives, or to consider time or stage. The strong transfer from Germany also ignored the space dimension (market and wider environment). It made no consideration of the time dimension relative to its home market maturity, or to the stages a growing organisation would normally go through. These things are completely ignored in a MaxRep approach.
- This growing awareness extended my level of empathy and perspective relative to other points of view and in particular relative to the impact of other societal exposure in an international context. I became increasingly aware of and able to recognise the influence other employees or groups had been exposed to. This was useful and helped me to take a point of view that went beyond a good/bad judgement of influences into a more objective realm where I could understand differences without placing value onto either side. I had to acknowledge my own naivety at the time, but I could not learn without exposing myself to my own shortfalls seen with the benefit of hindsight. And, with reference to the cases, I completely underestimated the societal embeddedness acting on head office managers in Case A, the same force influencing myself in Case B, and later I underestimated the territorial embeddedness impacts which we, as an expat team, were exposed to in Case B.

IMPACT OF LEARNINGS ON PRACTICE

The main focus for future practice will be about nurturing a glocalisation perspective, used as a benchmark in the thesis. The main aim is to support more successful and faster expansion of retail brands in new markets. Referring to the thesis, it must be clear that the home-market emerging perspective of MaxRep contrasts significantly with a glocalisation approach. The key conclusions directing a glocalisation approach would be:

- Increasing awareness of the impact of embeddedness and being embedded in particular institutions/organisations or countries, be it at a personal, group or organisational level. It is the societal and territorial embeddedness elements of the embeddedness theme that are most difficult to fully comprehend, and therefore, change. Network embeddedness as a deliberate and controllable overlay of contacts and connections and is consequently easier to control.

- Increasing capabilities to develop a process/stage perspective to facilitate the recognition and understanding of this important trans-contextual dimension. This also influences the legitimacy of the recognition and attention paid to consumption and market differences.
- Systematically balancing standardisation/adaptation forces and understanding the force of the trajectory to anticipate the impact it will have on achieving this balance. This might be about taming the impact by way of adjusting the above two points to obtain a balance.
- Seeing clearly how an appropriate strategy which embraces the need to glocalise is developed, where the blend of influences reflects trans-contextual requirements as well as the need to transfer a retail formula. It is important to determine which part of the organisation should, at a given time, impact at what level on the value proposition to bring about an appropriate strategic agenda.

Increased Awareness: Embeddedness and Institutionalisation.

Because of the impact that embeddedness and institutionalisation had on my own behaviours, I would aim to generate awareness of these concepts within an HDR organisation, particularly at senior management levels, both at head office and locally. Increased awareness will help actors to acknowledge the influences that they act upon and define their own pre-dispositions and subsequently their capabilities to assess situations more objectively. In particular, I would draw attention to the impact of societal and network embeddedness at head office and the impact it has on the transfer of a retail formula. This would naturally lead to a discussion about group constellations for host-country start-ups that should be designed to deliver a blend of societal, network and territorial embeddedness most suited to provide the influences needed to drive success in a specific host context. This would also draw attention to the individual character of the societal embeddedness of actors, and the overall impact this has on an organisation's ability to bring-about glocalisation. This was one of the main findings in Case C, where the differences between CA & CB, and myself in the role as the COO, resulted in significant differences in societal embeddedness/past exposure, which impacted on how we perceived the need to adapt to the KSA market, irrespective of market conditions.

Increase Capabilities: Process and Stage

The most central capability identified in this thesis is for the HDR to make a blend of standardisation and adaptation work. The key ingredient is to allow an organisation to recognise trans-contextual differences and, nurtured by the evolutionary perspective, facilitate the identification of the stage it is currently in, as well as paying attention to how it will change over time. The latter is important if you are to recognise and potentially close the stage-gap between home and host market. Typically, this capability would be about allowing a start-up in a new host country to develop capabilities that are relevant to their particular situation, rather than pre-set transfer of capabilities available at head office which is at a very different stage. The perspective of wanting to make use of existing capabilities driven by MaxRep will, as illustrated in the thesis, also affect the strategic outlook in a particular situation and consequently impact on perceptions. In contrast, a person coming in from the outside from the local context may be more inclined to bring in a territorially-grounded perspective compared with an expatriate being sent out by head office. One of the main issues in sending out expatriates is that they are likely to have been selected for the role based on their long-standing exposure to how the concept works at home and, given that the stages are different, are unlikely to be able to deliver the competencies important for an embryonic stage in the host country. Even though they may have been with the HDR for longer, they are unlikely to have been exposed to multiple stages. Therefore, they support the lock-in to an approach/stage possibly less appropriate for the host-market context. The discussion here indicates how the blending of societal and territorial influences becomes an important competency.

A process and evolutionary perspective would bring-in the resources and perspectives relevant and necessary for the actual stage, and so ensure that trans-contextual dimensions are not ignored as possibly best showcased in Case A, but this effect is present in all three cases. The emphasis is immediately on generating efficiency and, by comparison, the effectiveness of the concept to meet consumer needs does not get nearly as much attention, despite this being an essential point to attain at the early stage. At this early stage the HDR needs to change the balance from being pro-standardisation to becoming pro-adaptive as this is what the situation calls for. Applying an evolutionary perspective, one would then attempt to gradually adopt a more efficiency-based focus over time and after the host organisation has aligned itself to the local market needs.

Balancing Forces: Making the Blend work

As the case review identified, it was impossible to blend the forces to make glocalisation work because adaptive capabilities were simply not available within the HDR organisation. This competency diminished as the organisation grew more mature and better aligned with the home market. However, as adaptive capabilities are called for in the host context, the HDR needs to build these into not just the host-organisation, but given the centrality of their global approach, into their home-organisation as well. The one-sided influences from central level towards the host country in Case A showed that the balancing of forces was dependent on the embeddedness constellation. The HDR needed to ensure that local exposure warranted local market input, and that they had the competencies to make use of this input, but instead it was either buffered or caused frustrations and tensions. The key here would be to heighten adaptive capabilities centrally to secure the usefulness of local input.

The blending must then be ongoing, it should leverage the capabilities further, and should co-exist with an increased focus on bringing about standardisation around common themes that can be developed centrally and applied globally. The example with the SKU-count illustrates how this could work: the range shallowness is determined relative to market conditions locally, while the process of how to achieve this can be developed centrally. Here central units can build-up the expertise to align the marketing mix with actual local insight to find the right blend of convenience and price. These capabilities, used in various countries, are indeed efficiently placed at central offices as they can then be applied in multiple countries.

The influences on the strategic trajectory are also important to consider. Understanding the societal and network embeddedness of key actors who act out of central office is important because these actors leverage the transfer of the retail formula. They may also transfer their assumptions and pre-dispositions and, as the thesis demonstrates, this can impact their ability to recognise and consider adapting to trans-contextual differences. The MaxRep approach presents significant risks derived from the strategic trajectory:

- A conviction, derived from home-market success, that the retail formula is so strong and, if executed precisely as on the home market, will always be successful. This may sound obvious, but the home-market situation becomes a constant reference for corporate actors.
- The definition of 'what is strategic' is too narrow. Referring to Burgelman (1991) and the narrowing-down of the strategic context definition during the maturer stages of ALDI

Germany and, as outlined in Chapter 6.1 and 6.2 in the thesis. The HDR is consequently setting a more operationally-led agenda.

The first point impacts how responsive the HDR thinks it needs to be towards trans-contextual differences. Bearing in mind the success ALDI had in Germany prior to engaging in internationalisation, one cannot expect to shift this attitude with ease. Also widening the strategic context perception to include the re-definition of otherwise pre-set mix elements, like the SKU-count, may at first seem easy, but having invested a lot of time to set and control this in the first place in Germany, it is understandable that ALDI struggled to let go of the control when confronted with foreign market demands like those in Denmark.

I would use the model and specifically the juxtaposition to illustrate this point if I was to take the lead on changing the mind-set of the HDR. Here at the core, where the trajectory meets trans-contextual dimensions, lays the central understanding required to shift the balance. Of course, this demands a very self-critical and reflective attitude at the outset to get this process off the ground. The discussion forces a situational pro-trans-contextual agenda upon the HDR, which in turn will affect the level of multidimensionality the HDR needs to deal with and increases complexity. The impact on international management of HDR will be that the approach needs to be country-specific, and given the challenge to standardisation, the HDR must work harder centrally to capture common/standard ground. Changes are required to sense local input and to communicate these inputs to the centre, while competencies are required centrally to act appropriately on this input. Simultaneously, the HDR must increase the awareness of how to install drivers behind efficiency/standardisation globally. In other words, the organisation must allow for a re-establishment of the concept by considering trans-contextual differences; becoming ever clearer about where attention to differences adds value or, where differences must be overcome as attention to them would diminish values, the HDR must drive a global agenda.

Strategy development: seen from a Glocalisation Perspective

It is the ‘ignorance’ within the MaxRep concept which we need to replace with global competencies to adapt the retail formula to add more value. This ability is at the core of the glocalisation theme. It is a central balancing act which enables the HDR to seek local alignment in areas where the value added is higher than the efficiency gains otherwise reaped when applying a standardisation approach. Referring to the SKU-count, one would need to find the balancing point based on in-depth market insights and cost evaluations to extrapolate cost-benefit scenarios. The distribution of flyers in Case A is another example of how this is being done. The extension of this approach into other areas indicates how glocalisation can take shape. The missing element here is the placement of competencies centrally to lead and take control of glocalisation; it would have been advantageous to receive support on how to better approach the alignment of assortment and market communications in Denmark based on experiences gained from other countries such as the Netherlands and Belgium. Here head office was unwilling to commit resources central to supporting such an approach, but rather fell-back onto MaxRep and constantly pushed for standardisation.

It was the early lack of deployment of a market-led approach that was the biggest downfall in Case A, even years after the launch, and given the start-up stage in Case B and C, the trans-contextual contrast was even more significant. I believe this is the issue with which the HDR struggles the most, as identified under the ‘stages’ heading. Seen from a strategy-influencing perspective and referring at this point to the model developed by Osterwalder & Pigneur (2010), the authors develop ways to make changes to what drives strategy change visible in their business model canvas. The change which has to be orchestrated can be illustrated with reference to what influences the value proposition in this model taking a trans-contextual perspective. The drivers in the more mature home market are the cost structure and the key activities are well defined, these elements are closely tied to the value-proposition. The relationship with customers, the channels used, and the segments approached are well-understood and little time is spent subsequently on gaining consumer insights. The structure is set. However, these influences on the value proposition need to change dramatically when viewing the situation in the host market, in particular at the early stage of a start-up. Here the emphasis needs to be on aligning the value proposition with the customer and the channels used. Building customer relationships becomes more important and the focus on cost structure and re-applying activities developed at home are less important. In fact, the structures transferred can be directly counter-productive and jepordise the re-establishment of the concept, i.e. structure needs to be removed before the retail concept can be redefined. Seen in the model developed by Osterwalder & Pigneur (2010), this shift from the left side of the canvas to the right consumer-centric side is important. This model is useful because it illustrates what needs to be embraced and the shift that has to happen in the embeddedness constellation. The application of the model is illustrated by Burt, Johansson, & Dawson (2015) relative to IKEA. I am convinced that the embeddedness and institutionalisation themes combined with this model offer a more holistic attempt to understand strategy within International Retailing and, blended with a process/evolutionary perspective, will deliver more insights to remove the barriers to the deployment of glocalisation.

CONCLUSION ON REFLECTIONS

My journey in international retailing, combined with my societal ballast in NPD, proved to be one that would emphasise the alignment of retail formulae to market requirements. I was pre-disposed to take a critical view of MaxRep given that the global approach would want to ignore local market needs. Understanding the sustained misalignment of approach and market was the main motivation for me to engage in this research.

Building awareness of the boundedness of strategy-making when exposed to the embeddedness and institutionalisation themes further heightened my awareness of the home-market influences on the host-market strategy-making process. This was central to applying a process/evolutionary perspective which allowed for applying a longitudinal perspective and is central to understanding the strategy-making path out of the home market. The Cases B and C offer snap-shots in time, but they remain closely related by the societal glue presented in Case A of some central actors in the deployment of a process/evolutionary perspective.

The development of the juxtaposition between the ‘Boundedness and the Trans-contextual’ was founded in the combination of these perspectives. This juxtaposition is the theoretical centre piece of this thesis and lays at the core of understanding the dilemma of HDR internationalisation. The strategic trajectory embodies the societal and historic ballast, which also mirrors a specific institutional structure and, most importantly, a well-aligned relationship with market requirements at home. This can be mapped on the strategy canvas to make the strategy-crafting process more accessible to practitioners. The trajectory is grown out of a company having established a high level of standardisation and, subsequently, it has never learned to consider trans-context: It is pre-disposed to apply the same approach even if the divides when moving across international boundaries are much more significant.

The strategy canvas offers a more holistic approach to strategy-making and can take into account the influence of new themes in a way that can advance successful retail internationalisation. When illustrating strategic settings in different contexts and contrasting these with the needs of different markets, one allows for a better understanding of what brings about strategic change. I have observed much wasted efforts and I remain concerned that the approach taken by internationalising HDR fails to allow for the benefits that a different approach can bring to overcoming the barriers to glocalisation.

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Appendix II: INTERVIEW WITH CONSULTANT A (CA)

CA held various positions in Aldi North during the period 1971 to 1985, amongst other he was General Manager of Aldi Nortorf (a regional operational subsidiary) and was appointed as Managing Director of the Central Executive Board. He is an expert on discount retailing and was leading the start-up of BIM in Turkey for about ten years and has been involved as a consultant in the start-up of hard discount retailing in several other countries.

<u>Questions related to the start-up of Aldi in Denmark:</u>

HC
We can start with the situation of Aldi in Denmark and how the company was started-up in Denmark. So, what was the process behind starting the company up?
CA
There was no different process from experiences before in the Netherlands as an example. Ok, there was one small difference: In the Netherlands we had the opportunity to start with a really small retail chain, of I guess 5-6 stores and the advantage to start with 5-6 stores, you get a certain infrastructure. You know about accounting and the country laws, you get access to manufacturing and so on, and in Denmark we started from scratch. There was not any small retailer we were looking for we could take. So, this creates difficulties and somehow maybe this is one of the reasons (reflecting about this later) that it took time to establish the chain in Denmark. Same in Belgium it was much easier to start with a certain infrastructure – let us put it this way. And this was the only difference and then you send your first director to Denmark and he gets the job descriptions and the organisational charts. He knows the concept and then goes ahead, but I don’t remember about certain limits of assortment, no. off articles etc., I don’t remember. Maybe that we at that time in Germany had 600 items, maybe we said we would start with 600, but I do not remember.
HC
Did you do any kind of market research or assessment of market or how did you approach that?
CA
No, this was what I did before, and this was not really a market research. You just walked through the stores to see what environment and so you see the assortment. It doesn’t differ very much from what we knew in Germany. Maybe sometimes there is a bit fresher, or whatever, it does not matter and the only difference which I already mentioned before, was that I had some doubt about the price that we could deliver because of the high value added tax in Denmark: 25% compared to at the time 6% in Germany on food. Yes, at that time non-food, I guess, was 12% in Germany, so also much lower for all the cosmetics and technical products it was 12%, but Denmark was 25%. At that time, I had some doubt if we could give a price advantage of say 30% or so because of this tax issue. But otherwise everything in principle the same and this is just concept.
HC
So, a lot of things were just transferred from Germany to Denmark in that you translated documents? Where many translations made at the time?
CA
There are not that many documents. The organisation chart, then you have the job descriptions, that is it. And the other parts, is just what I would call corporate culture and corporate culture is just concept again: limited assortment – you don’t need documents on this because as I say each of the cashiers and the truck drivers understands. The concept is limited assortment, ok which number (CA indicating with a gesture that this has to be set), daily consumption, easy subject! Highest quality, lowest price! So, you don’t need documents on this. It is very easy. And then next is concept training on this, and also go into the details, don’t forget the details, there are so many

details to consider! And that is it! Then you start your operation. And the first thing is, two main things besides having a warehouse. Of cause you need a warehouse, without warehouse it is just no possible, without warehouse you cannot work in this concept with wholesalers and direct deliveries to stores, you need your warehouse. In principle it is not a problem in a foreign country to find a warehouse, you can do it, next is to look for locations, what is the problem? There is not any, except same problem as you have here: to look for a store in the city of Hamburg is the same as in the city of Copenhagen. It does not matter and the people in front have to solve the detail and the problems and with all the administrative issues etc. and the next things, and of course this is very difficult in foreign countries, this is the supply side. Find your manufacturers.

HC

Did you experience any particular and significant difficulties in Denmark?

CA

I don't remember. The only thing which comes to my mind is, and that is the same as in other countries, that you are confronted with more or less monopolistic situations, and suppliers, which make maybe 60% with retailers in their country are very careful to start working with such a newcomer, but this is the same everywhere, this is not specific. I am not familiar with the import from Germany. I forgot this.

HC

Do you mean overlap with the German assortment?

CA

Not overlap, but just assortment delivered from German suppliers. I remember there were always difficulties with the milk. I guess at the time it was forbidden in Denmark to have the long-life milk outside the fridge. This was a huge issue at that time. And I remember we even contacted Brussels. The Danes at that time were not clear with this, I remember. And of cause the other retailers wanted to keep this situation.

HC

As a kind of barrier? Though you could say long life milk is not a big product in Denmark!?

CA

Not any more! No.

HC

At the time it was maybe bigger?

CA

Yes, it was, it was big.

HC

Yes, it must have been like a barrier to entrance!

CA

And milk was a huge product, of course.

HC

Were there any adaptations which were considered at that point? In store size, store locations or if you look at the marketing mix elements like assortment or even packaging. Were there any reasons to do things differently in Denmark?

CA

No, not really anything of huge importance. You always have some small issues.

HC

There can be small things.

CA

Yes, with laws for personnel and you just have to adapt to what is common in the country or what has to be done. Opening hours or whatever, but this is not really an issue, in none of the other countries.
HC
Those processes, I mean there are some processes behind like establishing assortment or setting pricing, which is running in some set ways in meetings in Aldi in Denmark. These ways of doing things, where they transferred from Germany straight into Denmark or were there some changes made?
CA
In principle there is not certain organisational issues like that. You have to look to define your assortment, where can you find it? You have your people on board, it is ok. Go to see what Coop is selling. You are living in the country, you know what you use at home. I mean this is an important issue, retail is so easy. We know all the products, this is as Jack Welch said not rocket science. I know my yoghurt, I know bread, I know meat, I know rice and sugar and milk, what is the problem? And I know what is important in my home if we talk about daily consumption. That is it!
HC
There was no like of prescription that we want no brands and only private label?
CA
No, the only surprise and I think it was solved easily, was with condoms. I think the other supermarkets sold them and this was very new to us. I remember there was some discussion, but I do not know what it was about.
HC
You did not want them in the assortment?
CA
I don't know, it was just unusual for us. Did they sell it?
HC
Yes, they did!
CA (joking)
Yes, this is ok, if this is daily consumption!?
HC
There was no kind of input given to meeting structures, e.g. I mean there is a certain process in the buying meetings, you go through pricing, you go through assortment, assortment size, make decisions about what should be out-listed. These meetings, who was chairing these meetings?
CA
Now, where you start with one region, you add the first stores. You have the regional director. He has the same organisational chart as we have here. You have your sales managers, area managers, but in the direct line sales manager, purchasing people and then you have your expansion director, your warehouse and your administration. Now you talk about the assortment: purchasing, sales and director.
HC
They would decide?
CA
Yes, and there is no difference to Germany, but this is also part of the concept. These guys together discuss and then there is not any regulation who at the end of the day decides. Ok, it is normal that if there are three ideas, then the director decides, but there is never a voting or something or a regulation on how to define the assortment. There are just these guys, who have to discuss the matter almost every day or every week. This is nothing special.
HC

Was it normal that the what I saw being practices, was it normal that the meeting was chaired by the board member from Germany?
CA
No, never, this is also part of the concept at the time, I do not know about later. Part of the concept is decentralisation and the director has to know about how to do, that is it. And he has his job description, he has some training in Germany, he got to know how they do and by the way, he knows his partners and colleagues in Nortorf and can call them and ask, how you are doing? So, in principle, very, very easy without interfering, and this without interfering is one of the main issues at that time because I want to learn how they do and I do not want to understand how I do, I know how I do, and if I do the job, then I am responsible, then I do not need the people.
HC
Did you have any clear expectations to the market, I know Aldi does not do any kind of budgeting, but there must have been some expectations to investment or turnover?
CA
No, no and never! Why? Because you are convinced of this concept and what the concept is for the customer, people like low prices, people like high quality. So, if they can buy high quality at low prices, what is the problem. This will work everywhere in the world and it does! You just start, open stores and start the operation. It will work! And if you do the right job, you cannot avoid success. And all the business plans and analysts and whatever number of people do before, it is all nonsense. Take as an example Aldi in the US. They started about late 1970s and I guess today they run about 1300 stores. Over 30 years that is. Everyone would say this is a very slow development. But what is the problem? Why not, this is a family owned business, and this is not stock listed where the analysts every year (or quarter) are questioning how they are doing. They are not doing a good job! They do not increase, increase, increase.…and as far as I know and understand on the US, they are doing an excellent job. Step by step, trial and error. And why is Wal-Mart back from Germany, Wal-Mart came to Germany. Why did they get back from Korea? Why did Carrefour close stores in Korea and Japan? This is the, let us call it the money greet, the analysts and controllers and they make business plan, for the next 10 years. They know how much sales and profits in 2020!? And by the way, concept is very low costs and low expenses, and these low expenses is organisation, it is not low salaries. But you don't have a marketing department, you don't have a controlling department, you do not make market researches and you get rid of all these stupid management issues and therefore you have got low expenses.
HC
Do you think that there is a link between this practice of not budgeting and the focus on daily work?
CA
Do not know if I understand the question in the right way, but you concentrate on the main issues and the main issue is the daily work and the operational side of the business and it is not whether it will be after 2 years 2.6 or 2.11. You concentrate on the main issues and this is with all the numbers. I mean it is wonderful what our computers and information systems can deliver, but it keeps us away from the essentials.
HC
Were there many visits in Denmark. I presume there was one person responsible for Denmark. Did that person visit frequently?
CA
Maybe once in a quarter – I do not know.
HC
In the time you were on board, were there any disagreements between local management and the board? Any discussions about specific issues?

CA
Of course, there were discussions. When you go there every quarter, you ask why, why, why? And there is discussion about issues, this is the same here, this is the same everywhere. Are there any new locations in the pipeline? We do not have any in the pipeline (presumed answer). Why not? Because it is very difficult, they are very expensive (presumed answer). But this is nothing special in Denmark, it is nothing special in foreign countries, not special in Denmark.
HC
Netto bought a company in Copenhagen, where they acquired 24-25 stores from a local player. In this way they had a fast start and, in this way, they eventually took over the lead in Denmark from Aldi. Do you have any idea what caused that situation?
CA
I do not remember. And also, I would not care. I mean, we started then go ahead. And do not care what the others are doing. I mean, this is my concept and I am working on my concept and others are doing the same or copying or different issues. Let them do. Of course, they had huge advantages because of the infrastructure and access to suppliers and so on. In this case Denmark was not easy.
HC
Do you think they had, because they are Danish, an element of nationalistic tendencies?
CA
Yes, this was part of our feeling, but also this can happen everywhere. Maybe very specific in Denmark, but do your job, make a good job and that will solve all the problems.
HC
Re. the connections to the suppliers, were there any specific activities focusing on helping the relationship to get established initially. Did Germany push, via cross-border connections, so that suppliers would come on-board in Denmark?
CA
I do not remember. Of course, if there is a German supplier, who already is established in Denmark, could be helpful, or push the supplier or to open a subsidiary.
HC
Did you go to Denmark with the expectations that you needed a complete purchasing team in Denmark?
CA
Yes, of course, the German purchasing team (the central purchasing team) can assist a little bit but cannot do the job.
HC
It was like taking a copy of the set-up in Essen and placing that in Denmark?
CA
Yes

Questions related to the start-up in Turkey/BIM

HC
Now, if we change the focus. Let us look at the situation in Turkey with BIM. Was the start-up very similar to what you experienced in Denmark or were there things you did differently?
CA
I was on board from the very first day in the country from the very first day. I was a kind of an informal COO. And also, what's different in Turkey, everything goes much, much faster than in our bureaucratic European countries. Of cause Denmark is a very bureaucratic country, everything is regulated etc., so this is much easier. But on the other hand, this does not matter because you are in a certain environment and the same is true for all the competitors. You just accept what is true in a

country. (In Turkey) The concept fits very good to the income of the population, competition of course is different, not that many organised retail chains. What is typical in Turkey, is that you have got hyper markets, like Carrefour and on the other hand you have got bakkals, these are small mum and pap stores. And in between almost nothing, Migros a little bit, so this is of course different. But again, you may talk about all the countries in the world, every country has a different environment and you have to just go along with this environment but work your concept and the concept in Turkey was the same. And why should Turks not buy good quality at low prices – it is easy? And many other things also are different, our people and the Danes are shopping by car and the Turks are walking.

HC

I believe that meant that your locations were less equipped with car parks and smaller stores?

CA

No car parks, smaller stores, also if you start in a city like Istanbul there are not many locations and the first locations very often were made out of combining 2-3 bakkals and you made 1 store out of it.

HC

That was a difference to Germany, I mean that must have been a very clear difference to Germany, we are going into a very densely populated area, people are shopping by foot and therefore we must adapt our store size to what we can offer in the area and what locations we can get?

CA

But don't forget this was the same in Germany 50 years ago also. You must not compare with the stores of today. If you go to Turkey, forget those stores.

HC

So, are you saying that when you did that, you did think: where are we and did you think you were going some years back compared to Germany in terms of market structure etc.?

CA

Sure, everything.

HC

So, you translated that, you could see the market was not as mature in Turkey, and you could take a let us say an Aldi-model which was a bit dated for Germany but fitted into Turkey?

CA

Yes, and on the other hand this is a very new start. Nobody knows your stores. This is a reason to compare Aldi 50 years before and if you start this new operation, do not start with 400sqm sales area but 200sqm.

HC

So, you expected a lower sale at the beginning?

CA

I do not expect anything as you know. We need a store and you need space for your 400-450 items, that is it, and of course you need a small rent also.

HC

The 450 items were this the same as in Germany at the time?

CA

No, at time when Turkey started, this was 1995, I think Germany had already more than 1000 items.

HC

So that was less than half?

CA

Yes, but this was the number Germany had 50 years ago!

HC

Interesting, you had this in mind that ok it was different but could see the development they had gone through in Germany and that you had to start at a certain point back in time in Turkey?
CA
Yes, and you just have to align with the environment in Turkey: low income, dense population, traffic issues. You have to solve the problem in the country. We had to arrange deliveries in the night, which was never the case in Germany. Why? Because the trucks very often cannot get through the streets due to parking cars, high traffic, they cannot get through to the stores, so we had to arrange night deliveries in many places. The German trucks were 30 or more pallets, the biggest trucks used in Istanbul were 14 pallets - because of the traffic issues. And again, it is very easy, it is concept, concept is to solve logistic problems, have low costs, make everything which makes sense and is logic and do not copy any model somewhere in the world. Only have in mind concept.
HC
When you define the concept now, you define it not in terms of solution but in terms of what is our target here, why are we here and as you say the cost is the main thing. So whatever solution fits to meet that target in other words, you do not say that transferring a solution from another country and this is the concept, the concept is to have the lowest costs in your operations.
CA
The number one concept, and this is the business model, is not the lowest costs. This is something else, the business concept is limited assortment within food and daily consumption. Lowest price, highest quality. Right now, we are engaged, my son is working in Columbia. They opened the first store one and a half year ago and now we run approx. 100 stores. It is fantastic, they stopped comparing sales with last year because of the high numbers, they only compare sales with last month! And what they do, same as in Turkey. Of cause they have got a different assortment, but they have got the same limitation. I think they have got 450 items and they take stores they can get.
HC
They are leasing stores, I take?
CA
Yes, as Aldi did also.
HC
The buying (of stores) come later with stand-alone stores?
CA
Yes, of course in Turkey or Columbia or wherever you go, the supply side is a huge challenge.
HC
Bigger than in Turkey?
CA
Yes, we are considering shipping water from Europe, can you imagine this? The issue is important taxes in Columbia, otherwise we would immediately ship water to Columbia, because transportation costs are so low.
HC
In containers?
CA
Yes, they now sell beer from Denmark, I think from Carlsberg.
HC
Incredible, if you think about the implications. If we just go back to the range again. It is remarkable, that the private label content in Germany at the time Turkey started was much higher. How do you see the situation in Turkey with private label, how is this to be managed in that situation?
CA

You start with brands, you start with second brands and you immediately try to find suppliers for private label also. But at the very beginning this is hard to get, because you ran 2-3 stores, there is no sales. And I remember I made a role play for the purchasing people: “Good morning Mr Supplier, I want to tell you who we are. We are BIM, you do not know BIM but maybe you know 1 or 2 of the shareholders which will generate some trust. What we intend to do, we want to be exactly the same operation as Aldi in Germany. Have you heard about Aldi in Germany?.....ok, I may not need to explain. And this is what we do! Are you interested in being with us and start today with us and the next 10 years?” And many say “Ok” and that they see an opportunity. I make the packaging and invest in the product to start a private label and then it is going. This was done in Turkey and of cause still today and this is different in other countries in Europe, the private label/brand issue. It is very different and interesting theory also and they sell private label plus Coca Cola, both, and to give one example which explains the issue private label/brands a little bit is the difference between Turkey and Poland. In Turkey, I do not know how it is today, many years Coca Cola had about two third of the sales and the private label one third. If you consider the high sales! In Poland it was the other way around: private labels two third and Coca Cola one third. Why? Differences in prices are the same, quality is the same. My hypothesis is twofold. Number one, the Polish were not influenced for decades by the brand image, advertisements etc. Nobody knows what the impact was, but number two is very important. This is the education level of the people. My theory is that if you are self-conscious and not just “drinking” the brand image, but you taste the content and are thinking about it, then you conclude: this is a good product and I will take it. And my assumption is that the Polish people were much better educated than the Turks in general. So, this could be a reason, it is up to your doctoral work to find out, this would make an interesting research area.

HC

Yes, it would be. What I see is a dependency for a discounter, here in particular Aldi who is leaning on a high private label content. The concept leans on a 95% private label range mix and this would imply that they are dependent on their image. However, the image is connected to the private label to the store brand, not to the international brand. Coca Cola they are already known in Poland. If Aldi for instance would expand into Poland, as they did in 2008, they would have to lean on its store brand, it would at that point have to decide to list more brands or it would have the problem of selling the private labels due to the lacking image in Poland initially. Similar to the situation in Turkey. So, what do you do without this image? You can say the internationalising retailer like Aldi, who would also have to decide where to source, can they actually buy private label in Poland or would they have to source in Germany. Would the companies supply private labels? That would become an issue?

CA

Yes, surely. But this, and I saw the line from the questions you have asked, you have to develop a totally new environment. So, it does not help, for an Aldi, to go to a foreign country thinking it can benefit from being strong in Germany on private label etc. You go to the States or to Australia and you will have to establish a completely new environment on private label sourcing and therefore you start also with many more brands. The only advantage that you have in US and Australia is that they know about Aldi and manufacturers would be much more prepared to start with Aldi. That is the only difference. But, as it was, you cannot transfer private label into these countries. Take Switzerland for instance, which is also very difficult in terms of private label. You have to take the Swiss manufacturers and start. The only thing they know is that this is a very reliable company, they pay on time, you never have to be anxious. But if you start in Turkey or Poland this is different and therefore I am in principle very reluctant to use the word “internationalisation” as the only thing you internationalise is a concept, the know-how. Therefore, I was in Korea, in Chile, in Mexico, in

Columbia right now, everywhere the same issue, it is only concept. The Mexicans are perfect they do a good job because they took it like, almost like, the Pols and Turks and like now in Columbia, but it failed in Korea and Chile.
I don't know the title of your research, but in principle there is no internationalisation. If Carrefour is going to or Wal-Mart is going to China or Japan, they have certain advantages as the global manufacturers are also present in those countries, so they can deliver. They have got more advantages than hard discount retailers have.
HC
What you are saying is that the hard discount retailer – leaning on private label assortments – will have to re-establish the assortment in the new country and therefore this work is a local job in the respective country and therefore your strength in the home market cannot be made to use.
CA
Exactly, they will have to start from scratch again. The only strength and this is amazing that it works like this. All the others are stupid, they do not understand this simple concept, otherwise they could take it, they could use it! Lidl understands, and they know how to differ etc., but others do not understand! Even in Germany the competitors they don't understand. They still are struggling with their 1% profit. I just was counting the number of yoghurts at Edeka around the corner: 160 different yoghurts! They do not understand! And why? Who is making this assortment? The suppliers! The retailers are stupid! They don't master their assortment.
HC
You are describing that in your book, e.g. the discipline to restrict and maintain a narrow assortment despite the customer coming in and asking for a wider assortment. As a discounter you have to remember what the narrow assortment is based on, it goes back to the assortment I believe. I mean if you were deciding to offer a wider assortment, then you would not be able to offer the value in your assortment. This is the essence of the concept, but maybe it is hard to develop this discipline?
CA
Yes, I mean when we established hard discount in Mexico, we had to look for the assortment I suggested to start with 500 items. This was met with: "Why can't we take 800?" Because 800 makes more sales – this is not certain though. But they want to change the concept immediately. 800, yes of course 800! When I had the Mexican employee here, we went to Lidl. He said: "What is going on here, no music!?" My response: "Heh, you want music?!" I personally don't want music, I like Händel very much and also Mozart, but they do not play it!
HC
The assortment question is still interesting. You can always ask, the question is never wrong, e.g. why 600 in one country and the same in the next country. Providing for the daily consumption can have a different meaning seen from a market perspective. For instance, I would argue that in the case of Denmark you would say because women are working more, customers are less motivated by low pricing as such and therefore you can argue that for the assortment to have the same meaning as in Germany you might have to translate that into 800 in DK?
CA
Maybe, but do not forget and that is another element in the concept: 800 is more complex than 600. My assumption today relative to Aldi in Germany is that they have got 2000 items, maybe 1000 boxes (warehouse units), but some with several mixed cartons. So, what I recognise is that they are losing in quality, they are losing in competence in many fields of the assortment and this is because 2000 is much more complex than 600 or 800. And this is a limitation, also the 600 in Germany, at the time Aldi South had 450 items, can you imagine 450 in this high-income country. Incredible, but the 450 articles are not chosen by research or theoretical assumptions but just 450 (indicating that they are just decided upon).

HC
It is a very blunt and arbitrary decision as you say in your book, the important issue is that the decision is made, and it is kept to a certain level but following the general trend?
CA
Yes, you can look at Turkey (BIM). I do not know how many items they have got today. Maybe they have 50 or 100 more than during my time. This is ok if you are able to manage the complexity. Take fruits and vegetables, when I was with Aldi, it just started with Bananas and Oranges and Apples etc., but more and more they became able to manage the complexity, then it is ok, same with frozen and the chilled etc. And this is again part of the concept, not written but corporate culture, trial and error. Try it, try the new article and if you can manage it, go! And there is a nice saying from Albert Einstein, I say it German: Man fragte Ihn: “Wie arbeiten Sie, wie kommen Sie zu Ihren Ideen and so on?” Und er sagte:”Ich taste mich voran.” (translated: “How do you work, how do you develop your ideas? I grope my way forward”) I wrote in one of my books this sentence, because this is exactly how the concept is working. You try something. Aldi started, by the way together with Tesco I guess as part of a cooperation, with carbon-based trucks, which is much lighter. Why? Aldi is doing this, because of productivity and costs. The others don’t care, the manufacturers they come and offer a truck like this. You know the fork lifts in the warehouse, I mean the sprinters not the manual once. When I started they could take one pallet, then two and then three pallets. Where did it come from? Only from Aldi. At Aldi there was one distribution manager who started with the manufacturers, and they tried. 24 hours this way, concept, and you have to establish the same in other countries.
HC
There was a certain level of innovation, trying to leverage their efficiency?
CA
You know the story of the barcodes in Holland. Before the cashiers had to memorise the price. There was this question, why should we remember the price, why not have a three-digit code? We said it was not possible, sugar is always 69p, and that was something you memorised by saying the price. But the employees in Ommen in the Netherlands, they did not tell us, but they tried it and it succeeded. It again was tested in Nortorf, it was wonderful, and it was introduced in Aldi North but Aldi South they kept the prices. With they changed later to the Euro, they introduced the barcodes. (CA inspecting the water bottle from Aldi on the table expecting to find several barcodes to secure swift scanning) Only one barcode?
HC
Maybe because they are sold in bundles of 4, they would then have the code to read it of while leaving it in the trolley and not need several codes on each bottle?
CA
Yes, that might be the reason.

<u>Questions related to the concept of delegation and centralisation</u>

HC
You commented in your book on the concept of delegation and decentralisation. Maybe you could add a few comments on these concepts within Aldi?
CA
I have a very rigid understanding supported by my own experiences through the stations of my life: Decentralise and delegate as much as possible, this is a very strict and important rule. Centralise only what makes sense and what is necessary. Possibly it is necessary to have a balance sheet for the tax office, you have to centralise here. But many other things where I say it makes sense to

centralise, it has to be discussed. Take purchasing, it makes sense to centralise, but this is very few and if I go back to Aldi, cash management centralised, tax issues and purchasing. That is it.
HC
In an organisation like Aldi you have got many processes which are conceptualised, they become part of your organisation and then you have got a concept, which creates a framework within which you can move. This framework can be wider or narrow and if it is narrow, then I would argue, that you are in fact centralised, even if you say that you are not.
CA
I admit this is true, but number one to remember is that these solutions were developed within a decentralised organisation. There was a certain entity and ideas came from Nortorf, other came from other (RDC's). And now we have the sprinters with the three pallets, and here I would say of course you have to take the three, unless you can convince us that the one taking 2 pallets is better. Why? Every day creates a new situation. This is the thought behind it.
HC
Because it is developed out of the application, from the people who are using it, you can be sure it is the best solution?
CA
Sometimes we have to decide between two solutions and you take one of them. Also, in this case we have to decide and if you consider this as centralisation, I would say if you do not have a better argument, take this as it is less complex. And if the manager comes from one region to the next, then it is a benefit that it is the same and because there is no relevant reason to differ, then it is less complex. Same with job description etc.
HC
Yes, I am aware of the dependency of efficiency and standardisation, the flatness of the organisation etc. The more you standardise, the more one single manger can control, this is one of the things with Aldi that makes them very lean.
CA
And if you can hold on to the idea of not having staff departments, like an organisational department etc. You always delegate certain subjects to different regions. I know a warehouse manager in East Frisia who worked on specifying trucks and he was also responsible for the same subject in North Rhine-Westphalia, where they have got hills, but he was in charge of this as well. He knew we needed stronger engines in this area than in other areas. Then you can decide is this decentralised or centralised!
HC
Thanks, we are coming to an end of our interview.

Interview transcribed 2. October 2012 by Hans Christiansen.