

The Research about Organizational Management Adaptability in The Process of Localization in China: The Case Study of Tesco

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Abstract: Tesco claimed that it failed and decided to exit from the Chinese market based on strategic consideration. The researcher aims to analyze external and internal factors to determine organizational management adaptability in Tesco's localization in China. This paper reviewed the Chinese retail background and Tesco's operation in China. Based on Porter's five forces model and internal organizational analysis, this paper discussed Tesco's challenges in China during the localization process. Referred to the organizational behavior theory that the researcher believes learning organization could help Tesco enhance its adaptability and solve its business pain points in the Chinese market.

1. Introduction

Since the reform and opening-up, China's economy has shown rapid growth [1]. China had become the world's second-largest economy and the most attractive market. Based on this context, more and more multinational retail enterprises expanded their industries to China. This paper takes Tesco as an example to analyze the internal and external pain points during its localization in China. In addition, suggestions are given on how Tesco solves its pain points based on organizational behavior theory. At the same time, this paper also introduced the background of the Chinese retail market and the trend of combining retail and e-commerce in China. This paper aims to study the organizational adaptability of Tesco's localization in China based on the theory of organizational behavior and the pain points of Tesco's operation.

2. Introduction about tesco and chinese retail industry

2.1. State of Chinese Retail Industry

The retail industry generally refers to the business segment that sells goods and services directly to the end consumer. Retail enterprises refer to different business forms formed to meet different consumer needs. The chain business model in China began in the 1990s has developed systematically for more than 20 years. The Chinese retail industry has witnessed rapid development in recent decades, with an upward trend from 2010 to 2020. By 2020, The Chinese retail assets reached 6.7336 trillion yuan, the total retail sales of consumer goods in China reached 39.198 trillion yuan, and the assets of foreign-invested retail enterprises reached 741.43 billion yuan. The development of the retail industry in China is still showing a trend of steady improvement.

2.2. Introduction of Tesco

Tesco is a world-leading multinational retailer headquartered in Welwyn Garden City, England. Tesco's growth is a remarkable journey. It all started in 1919 as a grocery stall. The name "Tesco" was first born in 1929 by combining the initials of the surnames of two partners, T.E. Stockwell and Jack Cohen, which later in that year, the first Tesco store was opened in Edgware Street, London. Later in 1948, Tesco opened its first self-service store in Hertfordshire, with mixed reviews from customers. In 1956, Tesco opened the first supermarket in Essex, England. A decade later, in 1973, Tesco decided

to venture into the fuel business and opened up several petrol stations. In 1995, Tesco first launched its Tesco Clubcard program, developing its own internet service business [2]. In the early years, Tesco started its business in lower-end markets with high volume and low cost. Eventually, it gained more trust and confidence from customers for its high-quality products. With years of growth and development, Tesco has become one of the world's largest retailers, operating approximately 5,000 stores worldwide with over 420,000 employees. Up until 2010, Tesco expanded its business worldwide, including Ireland, Japan, Malaysia, and China. Tesco had set up 30% of its total overseas branch in Europe and East Asia. Sales records showed that China played an essential role in contributing to its revenue.

Tesco gained a foothold in China through a joint venture with Ting Hsin International Group by acquiring half of Ting Hsin's stake in its supermarket chain, Hymall, an established supermarket chain in Shanghai. In 2004, Tesco allocated £140 million to acquire a 50% stake in Hymall as an entry ticket into the Chinese market. Two years later, in 2006, Tesco spent £140 million to increase its stake in Hymall to 90%, which it then had complete control over Hymall [3]. Following the acquisition, Tesco changed Hymall to its brand, Tesco. Until 2014, Tesco had opened 135 stores in China and 18 thousand employees.

In 2014, Tesco announced a merger with China Resources Vanguard (Vanguard), owned by the state-run China Resources Enterprise (CRE). CRE will combine its 3,000 stores with Tesco's 131 stores nationwide. On 25 October 2015, TESCO's outlet in Jishigang, Ningbo, and Vanguard's store in Zhenhai began to use the new red hexagon brand logo, followed by another 11 Tesco stores and 14 Vanguard's stores in the following months. The new logo marked the partnership of both parties. The merger involved changing logos and standards and perfecting their merchandise structure, improving service quality, and enhancing members' benefits. At the beginning of 2020, Tesco officially announced its exit from China, selling all its stakes to CRE.

2.3. Tesco's operation in China

Tesco was not doing well in China. Initially, the retail sales reached 22.3 billion yuan by hypermarkets, supermarkets, convenience stores, and other retail businesses, but it was a loss on the whole. Based on the acquisition, Tesco immediately owned 25 stores in the Chinese market. Compared with its competitors, Carrefour and Wal-Mart had about 47 stores and 27 stores respectively in 2004, and they entered the Chinese market eight years earlier. The acquisition helped Tesco narrow the development gap.

In order to further unify and implement the operation methods and strategies, Tesco bought 40% equity of Hymall from Ting Hsin Group for 180 million pounds (about 2.8 billion yuan) a year later, so that Tesco's controlling proportion of Hymall rose to 90% and grabbed absolute control. Despite its smooth expansion in the Chinese market, Tesco has been in a state of loss. According to the 2014 financial report of Tesco, its pre-tax loss reached 60.2 billion yuan which created a record low in 96 years, and the loss of its Chinese business exceeded 11.3 billion yuan. Tesco has been saddled with losses in China for 16 years.

Until 2020, Tesco group announced that it had sold the last 20% of its Chinese shares to China Resources for 275 million pounds (2.5 billion yuan). Eventually, the world's third-largest retail giant, Tesco, completely exited from the Chinese market.

2.4. Tesco's Operation Mode

There are mainly two types of store format in the business model of Tesco China, which is in the form of hypermarket and convenience store. The first is the hypermarket format, Tesco Store, known as Tesco [4]. The hypermarket format is the most commonly seen store format of Tesco, and it mainly retails a wide range of groceries and a mixture of some non-food products and general merchandise. These hypermarkets are primarily situated in city centers and shopping malls. They are the primary source of income for Tesco's retail chain. The second format is the convenience store format that is named Tesco Express [4]. Tesco Express first rolled into the Chinese market in 2008, with its first

store opened in Shanghai. It is considered a small-scale retail store of Tesco that sells a small range of food like confectioneries and drinks.

3. The pain points and porter's five forces analysis of tesco china

3.1. Pain Points of Tesco in China

The pain point is a competitive disadvantage that prevents an organization from winning the competition, creating value, and achieving efficiency. Every weakness is an opportunity to improve on the current performance. Porter's Five Forces model is a good framework for analyzing industry conditions. Porter's five forces framework (competition from existing competitors, the threat from new entrants, power from suppliers and buyers, and alternative products and services) is based on the perception that an organization's strategy should encounter opportunities and threats in the organization's external environment. The function of Porter's five forces model is to define the attractiveness of a market [5]. This paper will review Tesco's operation in China through Porter's Five Forces model and point out the shortcomings of Tesco's operation in China.

3.1.1. Competition in the Retail Industry

Tesco has been facing an intensely competitive environment in China market: Tesco has provided similar and substitutable products and services against its competitors; therefore, homogenized products and services led Tesco to difficulty building up the brand imagination and loyalty on the customers. Besides, the cost of the customer's turnovers in China is also relatively low, and they would consider choosing the relatively cheaper products of better quality without caring who the providers are. Tesco also had lost its first-mover advantage in China market due to there being many competitors that have priorly occupied the country's market share. For example, Walmart has entered the China market in 1994, which is ten years earlier than Tesco. Tesco also lost the chance to enter China market during the China economic revolution period. At the same period, Tesco also still have to fight against its China local and international competitors such as Walmart and Wanda Group [6].

3.1.2. Potential of New Entrants into The Industry

The retail industry had a very high threshold in the China market; meanwhile, the degree of the potential market for Tesco in China is relatively lower than the other countries. It may conclude as three factors. First of all, China is a vast, complex, and capital intense market. Hence, Tesco was unable to adapt to the China market within a short period due to the cultural difference in China. Secondly, Due to Tesco being the late mover in China, it was no choice to face the pioneer competitors such as Walmart and Carrefour, whom Carrefour has dominated most of the China market share, and brand recognition and loyalty of the consumers [6]. Besides, the homogenized products issue also seriously due to the products sold by Tesco are pretty similar to its competitor while most of the products were produced from China industry.

Furthermore, Tesco's own brand's products had very low brand recognition in the market, which led to the consumers preferring to purchase the products they had known instead of the Tesco own-brand products. Lastly, the government implementation and strategies also adversely affect Tesco's China market. Tesco was difficult to receive support and incentive from China government due to the international industry usually miscommunicated and misunderstood among China government's instruction. For example, Walmart faced the union issue while Carrefour also faced the problem of restructuring. Tesco entered the Chinese market through mergers and acquisitions, and it is challenging to obtain government support in terms of location, so it has to establish a joint venture with state-owned China Resources. Weak links with local authorities are also a factor in Tesco's low potential to enter the Chinese market.

3.1.3. Bargaining Power of Supplier

Tesco faced two significant challenges in the China market. Firstly, Tesco lacked the base with local Chinese suppliers, following the other problem of the global supply management strategy. Due to Tesco was lacking the basics in China market, hence the company management unable to adapt to the country's cultural environment. Its supply chain management model was not adapted to local

customs. Compared with foreign retail enterprises that entered China earlier, Tesco's disadvantage in late starting led it challenging to gain advantages in terms of suppliers [7]. At the same time, a unified procurement management strategy also had problems and challenges while facing different area customers in China.

3.1.4. Bargaining Power of Customers

The bargaining power of China customers was high rather than in other countries. Tesco failed in the strategy of membership in China market, according to the US experience, which implemented the same membership strategy. In the early period, while Tesco entered into China market, the company introduced the US Tesco store mode, following the membership strategy, to increase customers' loyalty, yet those strategies were similar to its competitors. Hence the company could not dominate many advantages in the market. As a result, Chinese consumers do not strongly like any particular store. Often, they carry club cards from multiple stores, preferring to choose freely among different stores rather than being loyal to a particular store. Incomplete customer information is also hard to apply the research to know the customer preferences, which further affect the commodity purchasing plan. Moreover, Chinese consumers have a solid ability to compare prices. The price factor makes Chinese consumers often choose shopping malls with lower prices.

3.1.5. The Threat of Substitute Products

Tesco is also confronted with global e-economic issues such as Taobao and JD in China market. E-economic was proliferating in the China market, which resulted in customers being more likely to purchase via online platform instead of the physical store. The Valued products would be typically purchased by China customers online because that would reduce the purchasing cost. Hence in the China market, Retailer stores usually were being formed as the entertainment place for the customers. Meanwhile, the increase in labor cost and rental also affected the company's financial burden. Therefore, the company could not gain a price advantage in the market.

4. Challenges during tesco's localization in china

4.1. The Difficulties Tesco Faced in China Through the Localization

Tesco faced severe difficulties in business operation in China, resulting in a few years of financial loss. That result adversely influenced Tesco significantly as the investors showed a lack of confidence and were disappointed with the Tesco strategy implemented in the China market. The following will analyze the external and internal factors encountered in Tesco's localization in China. Finally, all factors affecting Tesco's survival in The Chinese market could be learned based on the analysis of pain points above.

4.1.1. Cultural Differences

The term "cultural" is a collective mental programming system in which all citizens were acquired in the same environment. Hence, *culture* cannot be defined as an individual character but the shared mental programming with the same social experience and education. The cultural differences among the nations, races, and society are due to differences in career experiences, society, and education. In the contemporary era, social culture was linked with business operations. Chinese social culture showed a dynamic and rapid development which resulted in Tesco encountering a severe social and cultural shock, also aggravated Tesco's organizational inadaptability.

4.1.2. Slow Expansion and Highly Competition

According to Porter Five Forces, Tesco faced intense competition in China markets, while the competitors were from the international organization and had to fight against China local retailers such as Wanda Group. Due to the slow expansion rate in China market, that led to Tesco was standing in an embarrassing situation [4]. From 2004 to 2006, Walmart and Carrefour had started transferring their target China market targeted segmentation to second and third-tier markets; at the same time, Tesco acquired Hymall. According to Zheng [8], Tesco had just entirely wholly-owned holding of Hymall while its competitors had done expanded their physical store to over 150.

As of 2014, Carrefour had a total of 237 physical stores, while Walmart had 411 stores in China market, following 85 stores by China local retailer brand, Wanda Group. Wanda implemented the form of the commercial complex as their market strategy, which was multifunction, high efficiency, and was able to satisfy its customers for entertainment, shopping, repast, and retailers. Tesco only had 135 physicals in China market, which is relatively lower than Walmart and Carrefour. Tesco also lacked a competitive advantage then Wanda due to its highly integrated organization. In the blue ocean market, Tesco also faced competition from local Chinese retailers.

4.1.3. Impact From E-commerce

Since 2008 afterward, China had successfully done rapid economic growth, resulting in top-ranking Year GDP around the globe. Internet and logistics industries became the key factors that boosted the Chinese e-commerce industry into the gold development age. For example, Alipay and JD had created their e-wallet payment system, which led to the traditional retailed store having faced significant impact because the customers would be more likely to purchase via online platform instead of physical stores [9]. The development of e-commerce was revolutionary [10]. According to the China National Bureau of Statistics, the e-commerce financial revenue was 1063billions, which increased Year-on-Year by 19.5%. Although e-commerce retail had gradually slowed down, physical retailers' impact was also not yet eliminated.

4.1.4. Failure of Leadership Decision-Making

During the two-year break-in period of Tesco's acquitting Hymall, Tesco had restructured the Hymall management system. Tesco had shown mighty on restructure Hymall's management while the company had made 50% acquisition on Hymall. However, Tesco had lacked the right to say in China market due to the company could not dominate the inter-management, while the company was unfamiliar to China market. Meanwhile, the civil inside Tesco also led to the profound impact of internal friction, hence adversely affecting the company's financial performance. The management philosophy of Hymall required "absolute obedience" of employees. However, Tesco preferred the Tesco Operation Model, developed in the United Kingdom. The conflict happened to both sides and resulted in the hash cultural conflict [11]. Management infighting has also left Tesco lagging far behind its rivals in China.

After Tesco had fully merged with Hymall, Tesco immediately identified Ken Towle as CEO of China Tesco. Most of the top management came from the United Kingdom instead of strictly assigning the local staff to strictly enforce the globalization strategy. Globalization is a strategy that the multinational company implemented from a global perspective to reduce the cost of production and organically combine to gain long-term and stable global competitive advantage. However, the weakness of globalization was that the countries were challenged to adapt to the host country's cultural features. Tesco had implemented the Retail and Real estate method in China to develop its business; the ratio of rent to own is 8:2 [8]. This model has gained certain advantages in the early development of Tesco, but it also has serious disadvantages. The popular self-built commercial land model abroad was difficult to promote in first-tier cities such as Beijing because the rents were insufferable. This model had hindered Tesco's expansion seriously in China market, especially in North China and South China. In addition, self-built commercial land has a high investment which needs A long return cycle and a high requirement for cash flow. Tesco's short-term expansion goals in China have been severely hampered by a large amount of money spent on self-built commercial land. At the same time, Carrefour and Wal-Mart all adopted the business model of leasing, which led to high-speed market expansion. Tesco's management had made great internal decision-making mistakes. It also represented the failure of the unified standard of globalization in the Chinese market because it ignores the actual situation in China.

5. Introduction and recommendations

5.1. Applications and Recommendations Based on The Organizational Behaviour Theory

As concluded in the previous sections on the commercial pain points of Tesco in the Chinese market, these pain points had been the fundamental impact on the losses incurred by Tesco during its presence in China. Firstly, the provision of homogenized products and services by Tesco hindered building brand awareness among the consumers. Secondly, the weak relationship between Tesco and the government had prevented Tesco from obtaining a geographical advantage and led to its slow market expansion, the disorganized and poor decision-making by the management. Thirdly, Tesco's poor supply chain management compared to its rivals. Fourthly, the lack of competitive advantage in the Clubcard system used by Tesco as a form of customer loyalty program. Fifthly, the considerable impact faced by traditional retail businesses from the rising of e-commerce. The five points mentioned above consisted of the internal and external factors that caused the inability of Tesco to adapt to the Chinese market, which resulted in its subsequent pull-out from China.

Hence, the following sections will discuss the organizational transformation approaches to be applied based on the organizational behavior theory to tackle the challenges faced by Tesco. Internal transformation of an organization can be beneficial for a business to adapt better and accustomed to a new market environment. Organizational transformation is to be proactively carried out by the management team of an organization (transformation initiator) towards changing the existing condition of the business in order to adapt to the changes in the internal and external environment of the organization and guide the company towards success. This section will be based on learning organization theory in analyzing how this theory can help Tesco tackle its commercial pain points and provide recommendations on organization management.

5.1.1. Introduction to Learning Organization Theory and How Learning Organization Can Tackle Commercial Pain Points

Learning organization theory can be applied by Tesco to carry out effective management transformation. Learning organization theory can be defined as an organization that possesses continuous adaptation and transformation. Inevitably, organizational learning is a skill that organizations should develop in a fast-paced and competitive environment [12]. A learning organization values the role that learning can play in developing organizational effectiveness. It demonstrates this by having an inspiring vision for learning and a learning strategy that will support the organization in achieving its vision (Building a learning organization). On a global scale, transforming an organization into a beneficial for learning, responding, and innovating will be a significant aspect of the organizational goal.

There are three critical points in a learning organization. Firstly, it has to surround itself with knowledge. A crucial aspect of this commitment involves the selection of individuals. Another aspect of learning commitment is to develop internal learning through various methods, ultimately discovering the knowledge acquired by each individual and documenting it for future use. A company committed to learning will systematize and compile everything learned to ease the reading by others. Secondly, a learning organization must include an internal update system. Departments and divisions tend to develop a rigid bureaucracy that will constantly hinder their motivation to acquire new knowledge. Bureaucracy will become an obstacle for the company in achieving success. Learning organization that constantly upgrades its employees and management through its internal update system will retain and assure the advantages and development outlook of the company. Thirdly, a learning organization remains open-minded towards the outside world, allowing it to respond promptly and apply the innovative business strategy in the business environment [13]. All organizations are in the process of constant learning and improvement. The two most commonly used methods are single-loop learning and double-loop learning in this process. Single-loop learning is defined as when errors or mistakes are identified; the management will use the current policy or the norm to rectify. In comparison, double-loop learning remains skeptical towards the standards and perceptions instilled within the organization, which will be beneficial for the organization to carry out management transformation.

In conclusion, a learning organization is a model that aids in managing innovative organizational transformation. In addition, it supports the coordination of internal management of an organization while responding to the events happening in the external environment. Learning organization also helps in strengthening an organization's cultural adaptability. Regarding Tesco, applying the learning organization management model will accelerate its progress in localization and enhance the organization's adaptability.

5.1.2. Recommendations on Organizational Management (Based on Learning Organization Theory)

In China, most international retail businesses had failed and exited the Chinese market. Global standardization has been proven ineffective for organizations in gaining an advantageous position in China. On the other hand, localization is a crucial way for international retailers to succeed in the Chinese market. Tesco should apply the learning organization method to carry out the organization's internal transformation and adapt to the market strategies regarding the successful cases of other international retailers. As shown in the diagram above, local retailers in China have better market performance and profitability. Tesco should apply the double-loop learning in analyzing and practicing the operational approaches of local Chinese retailers.

Concerning Wanda Group in China, it has developed a new and evolving retail structure, an integrated business model. This model involved the integration of business, entertainment, and work. By doing so, Wanda Group has been able to gain more market share and increase its business profits. For Tesco, the business innovation towards the retail industry that the local Chinese retailers carried out is worth learning.

In order to transform Tesco into a learning organization, the management of Tesco has to plan out three steps in managing to learn. Firstly, Tesco has to identify the strategy of the learning organization. The management team has to express their recognition and commitment towards organizational transformation, innovation, and continual improvement. Secondly, Tesco has to redesign its organizational structure. The current organizational structure of Tesco is very formal; as a result, a formal structure would very likely become a significant obstacle in learning. Tesco should flatten its organizational structure, remove, or merge specific departments, and increase the utilization of cross-functional teams [13]. The cross-functional team is crucial in the Chinese market. Once Tesco has built an efficient cross-functional team, it can help strengthen the interdependency and collaboration of the organization internally. Thirdly will be to reshape the organizational culture, incorporating the concept of localization into its culture [14]. Tesco should learn from the business experience of local Chinese retailers and other international retailers, which could help speed up its localization process, hence improving the overall adaptability of Tesco.

Given these three steps plan in managing to learn, Tesco could target the five pain points mentioned above and make relevant changes. Firstly, based on ensuring the continuous supply of local products, Tesco could learn from METRO in its product selection model, selling more imported products. This model could help Tesco expand its customer base and increase customer traffic. Moreover, it could help create brand awareness among its customers and differentiate itself from its rivals. Secondly, is to learn from the business model of Wanda Group develop an effective expansion and government relations strategy. First of all, Tesco could change its expansion model by converting its current build and lease model for its stores into a whole lease model as a way to shorten its cash conversion cycle, ease its cash flow burden, and reduce the risk of capital chain rupture. As a result, Tesco could speed up its expansion progress, increasing its number of stores to catch up with its competitors. Besides, Tesco could employ retired government officials to the board as an advisor, enabling it to have a deeper understanding of the government's policies and strengthen its negotiation capabilities, in turn giving it more opportunities to seize a piece of land that is geographically advantageous for Tesco to set up its store. Thirdly, it would be to study Walmart's supply chain management model. Whereby it maintained a centralized procurement system, and at the same time, scaled up the construction of distribution centers in the northern, eastern, and southern part of China, setting up more distribution centers with a broader range of coverage and improving the product differentiation of the centers to accommodate to the differentiated needs of customers from all over China. On the other hand, studying

the business model of Carrefour, adding local direct delivery for certain products could enhance the localization and differentiation of the respective products, further fitting into the consumption habits of local customers. Fourthly, the failing of the Clubcard system is a demonstration of the lack of cross-culture within Tesco. It should learn from Walmart in nurturing local talents. Walmart China had focused on developing local talents, encouraging talent diversity, especially for female employees, and training management teams. Over 99.9% of employees in Walmart China are locals, 100% of the store managers are locals from China. Whereas for Tesco, its management executives were British, causing great inconvenience in its business development in China. Similarly, focusing on nurturing local talents could help Tesco's management team make better strategic decisions by letting the locals understand the Chinese market better to help accelerate the growth of Tesco [15]. Fifthly, based on the direction of business growth in China, Tesco has to learn to deal with the impact brought by the blooming of e-commerce in China. Being a traditional retail business, Tesco should learn the evolving operating model of e-commerce. Regardless of having an online shopping website set up in the early days, there is still a huge gap compared with e-commerce giants like Alibaba and Jingdong. Tesco has to put the effort in perfecting its e-commerce platform, learn the new and evolving business model, and enhance its partnership with the leading giants like Alibaba in order for it to stay competitive.

6. Conclusion

This paper reviewed Tesco's operation in China and summarized the five major pain points that Tesco faced through the localization process. These five pain points led to the failure of Tesco's operation in China and seriously affected Tesco's organizational adaptability. For international retail organizations, localization and strategy are interdependent. Rational localization strategy could help international retailers stand in the entered market stably and immediately. This paper combined with the learning organization theory to give a reasonable solution. A high-quality localization strategy plays a decisive role in the Chinese retail market. Learning the practices of excellent enterprises in the same industry could help Tesco achieve efficient localization results and complete the internal and external adaptation of the organization in China. Tesco's organizational management adaptability would increase if it adapted successful localization strategy.

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