

# Hybridization practices as organizational responses to institutional demands: The development of Western retail TNCs in China

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## Abstract

This longitudinal case study evaluates the strategic responses of Western retail transnational corporations (TNCs) to China's business environment. It explicates how hybridization helps adapt and ultimately alter local institutional settings. Two-fold findings are discussed: the hybrid practices impacting on host market institutions, involving laws and regulations, fair competition, business networks, empowerment, corporate social responsibility, employee retention and quality control; and those impacting on consumption patterns, involving tailored offerings, targeting, new market ideology, store location, price and cost leadership. By doing so, the TNCs create new competitive pressures on China's retail market. The findings show the transfer of management practices that do not align with a host market may subtly alter its norms and practices. To sustain competitive advantage and enhance territorial embeddedness, the TNCs switch their key stakeholders from the governments to their businesses, the society and the consumers over time. However, their long-term legitimacy remains uncertain in China.

**Keywords:** Hybridization, institutional theory, internationalization strategies, territorial embeddedness, retail TNCs, China

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## 1. Introduction

A growing body of multidisciplinary work has linked retail to the global economy and conceptualization of business and management studies (e.g. Wrigley et al., 2005; Dawson, 2007; Coe and Wrigley, 2007). Large retail transnational corporations (TNCs) present their intentions of driving new markets by transferring new formats (Goldman, 2001), providing competitive pricing structures and bringing advanced information management systems, new marketing and merchandising methods and high levels of investment capital (Coe and Hess, 2005). Economic geographical research into retail internationalization uses the notion of territorial embeddedness to explain retail TNCs' strategies and practices in overseas markets. Territorial embeddedness refers to the extent to which firms' strategic behaviour is influenced by the institutional characteristics of the host market (Tacconelli and Wrigley, 2009) and the nature of the relationships between retail TNCs and local regulators and consumers (Wrigley et al., 2005). Recent conceptualization of retail TNCs emphasizes more the ways in which they

develop new capabilities to respond to host markets and fit with local institutions. For example, Lowe and Wrigley (2010) analyzed how Tesco achieved territorial and network embeddedness in the USA by explaining how it constructed the web of inter-firm and extra-firm relationships to operate stores in a different institutional and cultural environment, a process referred to as ‘continuous morphing’ (Lowe and Wrigley, 2010, 403). Indeed, the process of retail internationalization is significantly demanding beyond simply locating a retailer’s store or introducing a new retail format overseas. Foreign retailers need respond to local economic and social systems, various stakeholders, and the resultant growth and decline in a host market (Dawson, 2007; Wood and Reynolds, 2014). Particularly, retail TNCs’ expansion in emerging markets continues to receive a lack of attention, especially regarding empirical studies for theorisation. It has been unclear how retail TNCs transfer their management practices and whether, and if so how, the nature of their territorial embeddedness has been changed in order to respond to institutional dynamics and sustain competitive advantage in an emerging market in the long run.

Institutional theory suggests organizational conformity to economic and social norms for survival (Meyer and Rown, 1977). However, mere adoption of a certain structural form may not lead to higher efficiency but hinder competitive advantage (Greenwood et al., 2010). Research on internationalization strategies of retailers has discussed both global integration and local responsiveness in pursuit of competitive advantage (Bartlett and Ghoshal, 1989; Swoboda et al., 2014). To strengthen competitive advantage, hybridization has been applied by firms in host markets (Bhabha, 1994; Tolich et al., 1999; Becker-Ritterspach, 2005; Shimoni and Bergmann, 2006; Shimoni, 2011). Hybridization is regarded as ‘the creation of new management practices out of selective adaptation, innovation, and change’ (Morgan, 2001, 114). This notion has been used to describe not the simple juxtaposition of home and host country effects, but ‘the emergence of distinctive configurations that may depart from both home-based templates and local practices’ (Elger and Smith, 2005, 362) (In the present paper, ‘local’ refers to China). However, the dynamics in the process of hybridization have been neglected by the existing literature (Gamble, 2010).

Adopting the stance of hybridization, this article aims to assess existing hybrid approaches of the retail TNCs, and further substantiate how they alter the host market institutional settings through hybridization to achieve long-term legitimacy and to what extent this legitimacy has been achieved. Emerging markets with rapidly changing institutional environments offer multinational organizations options for adoption, management transfer and hybridisation, thus providing a unique opportunity to advance institutional theory based on retail TNCs’ expansion in these markets. This article uses a longitudinal, multiple case study approach to explicate how large general merchandise retail TNCs respond to specific institutional contexts in China. It highlights their adaptation practices and ultimate alteration of the local institutional settings and consumption patterns over the past two decades, through a process of switching their key stakeholders from the governments to their businesses, the society and the consumers. Consequently, the retail TNCs form new norms and practices, creating new competitive pressures on the host market.

Theoretically, this article fills several gaps in the literature on institutional theory, hybridization and retail internationalization. It extends the understanding of institutional theory by evaluating the hybrid practices of selected retail TNCs to achieve institutional legitimacy and territorial embeddedness in a host market. The relevant

literature on hybridization has been used to rationalize and describe the management practices in an unfamiliar cultural and institutional environment, but failed to explain any institutional impact hybrid practices have on a host market. By discussing the transfer of management practices, Gamble (2010) concludes that transfer is attempted when a practice is perceived to be of competitive advantage, and transfer is unsuccessful when it fails to align with host market norms and practices. I extend this view by arguing that the transfer of management practices that do not align with the host market may subtly alter its institutional settings, thus changing its norms and practices. Moreover, the application of institutional theory and previous research on transfer of organizational practices has neglected the retail sector by largely emphasizing manufacturing industries (Gamble, 2010). Much less is known about the retail sector, although it has become a significant part of the global economy (Dawson, 2007). Particularly, there is a lack of longitudinal studies exploring post-entry market development of retail TNCs (Coe and Wrigley, 2007). The opening of China's retail sector in the 1990s attracted the market entry of numerous foreign retailers. The recent research by Siebers (2012) and Siebers et al. (2015) discusses the adaptation strategies of foreign retailers in China and the critique of the ethnocentric approach adopted by some retail TNCs. However, their findings were based on the early stage of foreign retailers' expansion in China. Little is known about the market development of retail TNCs from a longitudinal perspective.

The remainder of the article is structured as follows. It first evaluates the institutional challenges in China's retail environment, and assesses the strategic responses of foreign firms in an institutional context through hybridization. The article proceeds to illustrate the details of longitudinal qualitative case studies, and then discuss the case study findings, focusing upon the chosen retail TNCs' hybrid practices and how these help them respond to China's dynamic retail environment and sustain competitive advantage. The article concludes with research limitations and suggestions for future research.

## **2. Institutional context and hybridization**

### **2.1. Institutional demands in China's retail sector**

China's retail sector started to open up in 1992, following the country's liberalization plans of the retail market. Western retailers entered China from the mid-1990s. China provided complete legal freedom for foreign retail operations by November 2004 with step-by-step changes after China joined the World Trade Organization (WTO) in 2001, spurring retail TNCs to further expand in the intra-national realm (Zhen, 2007; Wang, 2009). By 2005, China had become a major market for international retail expansion (Siebers, 2011). Its retail sales reached US\$1,680 billion in 2010, a growth of 100% compared to 2006, with forecast of doubling again by 2015 (Dawson, 2011). Despite potential opportunities, retail TNCs in China are confronted by significant challenges, e.g. unfamiliarity with business culture, brand identity issues, and the shift of power between producers and consumers in a supply-surplus economic environment (Gamble, 2010; Reinartz et al., 2011). Both opportunities and challenges encourage retail TNCs to discover unique ways to deliver their products and services (Sorescu et al., 2011) and adopt an appropriate management approach in China (Siebers, 2011).

Sorescu et al. (2011) found that the business practices undertaken by foreign retailers in China are in contrast to the global nature they have presented elsewhere in the world. This may be because they face a changing institutional environment and dynamic consumers, who become more demanding following rapid market growth (Gamble, 2010). Moreover, the various regional characteristics in China invariably create challenges to foreign retailers, because they need to not only deal with the overall emerging market conditions, but also respond to regional characteristics in pursuit of market growth (Wang, 2009). Furthermore, the resilient retail structure supported by the Chinese regional governments benefit domestic retailers more, and the majority of Chinese consumers maintain their original shopping habits in the urban markets or small grocery stores in residential areas; consequently, modern retail chains only make up one third of the sales of consumer goods (Wang, 2009). Also, Chinese regional government policies vary, protecting regional businesses (Law et al., 2003), adding deinstitutionalization challenges to retail TNCs' operations. Harmonious relationships with influential officers from central and regional governments are essential for the success of foreign businesses in China (Wang et al., 2005). The fast-changing regulatory environment allows some foreign retailers to discover loopholes and make the most out of the government policies, benefiting their own market growth. This was particularly apparent in the first decade of their expansion (Siebers, 2011).

Institutional theory emphasizes the global diffusion of practices and the adoption of these practices by organizations, but neglect how such practices are translated when they travel globally (Sahlin-Andersson and Engwall, 2002). To reduce the negative effect of adoption of a certain structure, organizations often decouple formal structures from their technical core to maintain external legitimacy and internal effectiveness (Meyer and Rowan, 1977; Greenwood et al., 2010). Thus, the net effect of institutional pressure increases the homogeneity of organizational structures to establish legitimacy in a given institutional environment (DiMaggio and Powell, 1983). Organizations may be successful by incorporating elements from different institutional logics. Institutional logics are referred to as overarching sets of principles that prescribe 'how to interpret organisational reality, what constitutes appropriate behaviours, and how to succeed' (Thornton, 2004, 70). They underpin the appropriateness of organizational practices and prescribe adequate goals and the legitimate means to achieve these goals in a given institutional setting (Greenwood et al., 2010; Pache and Santos, 2013). Institutional scholars have sought to understand the strategies employed by organizations facing multiple logics (e.g. Oliver, 1991; Kraatz and Block, 2008; Pache and Santos, 2013). Nevertheless, the progress of this understanding has been modest and research is scant for predictions of the ways in which organizations respond to institutional complexity (Greenwood et al., 2010). In particular, organizations from developed markets are confronted with increasingly complex institutional environments expanding in emerging markets.

When operating in a dynamic institutional environment, organizations tend to behave homogeneously and thus reproduce a single coherent institutional template, shaping routines, values, habit, techniques, managers' previous experiences and bureaucratic procedures. These behaviours may create a controlled environment in which repetitive activities may be undertaken while securing support from external institutional referents (DiMaggio and Powell, 1983). However, organizations are not passive recipients of institutional prescriptions, as they interpret, translate and to some extent transform them (e.g. Pratt and Foreman, 2000; Glynn, 2008). Kraatz and Block

(2008) propose that organizations enact four different types of responses: to resist or eliminate the tensions of complexity by deleting one or more institutionally derived identities and showing a strong commitment to a preferred identity (Oliver, 1991; King et al., 2010); to balance the various institutional demands by forging links among cooperatives (Binder, 2007); to emerge as institutions in their own right by building durable identities that immunize themselves against external pressures for compliance (Kraatz and Block, 2008); and to compartmentalize identities (Binder, 2007). When Western firms bring their background to a markedly different institutional context—China, they have two strategic choices (Boisot and Child, 1999). The first is to apply their standard policies and practices by securing sufficient control to respond to critical aspects of the local environment; the second is to absorb the complexity of the Chinese situation through a greater degree of participation in local relational systems. The former approach restricts firms' ability to learn, and the latter introduces difficulties in applying that learning elsewhere (Boisot and Child, 1999).

Organizations tend to enact sustainable responses by adopting a particular strategy to handle a competing logic at a specific point in time (Oliver, 1991). Thus, an organization that complied with institutional pressures some time ago may resist them today, and one that used to circumvent a mandate may embrace it now (Tilcsik, 2010). Greenwood et al. (2011) remind us that the sustainability of organizational responses and their variability across time is largely neglected, but it is an important theme that deserves attention. In this article, I aim to capture the management practices undertaken by a set of chosen retail TNCs in China over time. I analyze how they respond to the logics of the national systems, the retail sector, and the demanding consumers; and how their management practices evolved during the two decades of internationalization in a culturally different institutional environment.

## **2.2. Hybridization as management practices**

Hybrid configurations emerge from the interweaving of two cultures to challenge the existence of any fixed, coherent, and stable cultural identity (Bhabha, 1994). Hybridity creates a 'Third Space', which enables other positions to emerge where the two original identities may not be traced (Bhabha, 1990, 211). In the 'Third Space', new corporations use local culture to regulate the penetration of the corporations' practices and values into their managerial sphere, so that they disrupt the homogeneous order. Thus, hybridization destabilizes the fixity of the local management culture by blurring the existing distinctions between the local and the foreign culture. Hybridization concerns attempts to layer practices taken from different logics into a single organization (Binder, 2007; Smets et al., 2012; Pache and Santos, 2013). However, the long-term implications of hybridization require more attention (Rao et al., 2003; Pache and Santos, 2010).

In foreign operations, local managers tend to retain the local managerial culture. Even when they are indoctrinated into the culture of the corporations, the resulting hybrid practices need attention to achieve effective firm performance (Shimoni and Bergmann, 2006; Shimoni, 2011). Facing a new, continuously changing institutional environment, firms may operate within an unambiguous individual belief system for undertaking some of their activities, and within more ambiguous or multiple belief systems for others. Therefore, business systems are positioned to observe convergence in some activities of firms and continued diversity in others. Further comparative



qualitative analysis of the actual behaviours of organizations in response to the national institutional frameworks in different countries is needed (Tempel and Walgenbach, 2007).

The extant research on hybridization has improved our understanding regarding transferability of organizational forms and practices. Much earlier empirical work on hybridization was dominated by the Japanese literature. Abo (1994) shows the transfer of the technology and production systems from Japan to the USA, and the Japanese re-contextualization of human resource management (HRM) in the American car industry. Tolich et al. (1999) focused on decision-making and quality circles of Japanese and American organizational processes, and found that through the processes of diffusion and adaptation, the blurring of boundaries occurred between the new and the old operational and marketing systems. There are a growing number of examples that go beyond the Japanese literature. Casper and Kettler (2001) compared the hybridized business models of German biotechnological firms and their British counterparts in a particular institutional framework. Becker-Ritterspach (2005) found that a German automobile subsidiary in India required institutional foundations of discrepant expectations and behavioural dispositions to tackle intercultural friction. Battilana and Dorado (2010) compared two microfinance banks in Bolivia that combined institutional logics and deployed two different approaches to hybridization in HRM practices, namely an apprenticeship approach and an integration approach, with varying success. Shimoni (2011) shows how Thai and Israeli managers of two multinational manufacturing corporations operated in Sweden and the USA under a new hybrid form of management, cultivated by two sources of cultures—the corporation and the local.

In the context of China, Chen and Wilson (2003) found that a hybridized HRM system is often used as one of the localized operational strategies in Sino-foreign joint ventures (JVs). Gamble and Huang (2009) analyzed a British retailer that applied two different employment systems in their stores: regular Eastern workforce system and flexible Western workforce system, emphasizing the challenges of this co-existence. Gamble (2010) studied three Japanese retail multinationals, focusing on their transfer of organizational practices into China through hybridization to respond to the deinstitutionalization in China's retail sector with ambiguity, but neglected the question of how organizations handle the transfer when it does not fit with local norms and practices. Economic geographical studies on retail internationalization in China also analyzed how retail TNCs adapt to China's market environment and achieve territorial embeddedness through strategic adaptation (e.g. Tacconelli and Wrigley, 2009; Wood et al., 2016). Indeed, firms that operate in international markets inevitably adapt to the local external environment (Dicken, 2003), and the degree of the adaptation depends on the firms' capabilities, culture and how the host government exercises its authority (Prahalad and Doz, 1999). Tacconelli and Wrigley (2009) found that to achieve organizational legitimacy, retail TNCs operate at country, region, city and neighbourhood levels to embed into Chinese logistics, real estate and consumer cultures. However, retail TNCs' management practices in China have been adjusted over time, showing the changing nature of territorial embeddedness (see Coe and Lee, 2013). The present research argues that, in order to achieve long-term legitimacy, retail TNCs subtly alter local institutional settings through hybridization. During this process, both heterogeneous and homogeneous management practices have been undertaken by a

cohort of TNCs, leading to flux of growth and decline in their internationalization process in China.

Overall, previous literature on hybridization has mainly focused on its drivers and key factors for success. An important question remains regarding whether, and if so how, novel configurations adopted by mainly high status organizations through hybrid practices reshape institutional prescriptions (see Greenwood et al., 2011). The two decades of market expansion of Western retailers in China provides a useful opportunity to illustrate how the integration of hybrid practices has evolved through learning. In this article, I particularly articulate how hybridization assists retail TNCs to co-operate with the host market institutional logics at the early stage of their market expansion (also referred to as the first decade, from 1995), and then helps them to establish their preferred identity, immunize themselves against the external environment, and further create new competitive logics through altering local institutions and consumption patterns at the development stage of their market expansion (also referred to as the second decade, from 2005).

### **3. Methodology**

#### **3.1. Multiple case-study approach**

A case-study approach is appropriate for generating novel analytical perspectives and exploring new theoretical relationships (Eisenhardt, 1989). It is suitable for researching hybridization practices (Tempel and Walgenbach, 2007) and organizational responses to China's retail environment (e.g. Gamble and Huang, 2009; Tacconelli and Wrigley, 2009; Gamble, 2010; Xun, 2010; Siebers et al., 2015). A multiple case-study design is deemed to be the most appropriate, because multiple cases provide more compelling evidence and more robust findings (Yin, 2003) and allow for replication logic and cross-case comparisons (Stake, 2006).

#### **3.2. Case selection**

The approach to case selection was theoretical in order to gain a deeper understanding of phenomena but not to represent all possibilities (see Eisenhardt, 1989). The sampling ensured that the cases represented large retail TNCs whose expansion processes went through certain periods in which significant institutional changes occurred in China's retail sector. Moreover, they had to have expanded successfully in China. The number of outlets and sales were used as the main indicators for successful market expansion, adopting the way the worldwide largest retailers were ranked (Dawson, 2007) and the top foreign retailers were ranked in China by the China Chain Store and Franchise Association (CCFA) (e.g. China Chain Store Almanac, 2007).

Four cases were considered: Wal-Mart (American), Carrefour (French), Metro (German) and Tesco (British). The reasons for considering these cases were as follows: (i) they are the top four largest general merchandise retailers worldwide (Dawson, 2007); (ii) they were among the top foreign retailers in China (China Chain Store Almanac, 2007); (iii) they represent the major formats of foreign retailers transferred into China (Goldman, 2001): supermarket (Wal-Mart, Tesco), hypermarket (Wal-Mart, Carrefour) and wholesales-club (Wal-Mart, Metro). These cases have also been widely used to conduct comparative studies. Durand and Wrigley (2009) compared the

expansion of Wal-Mart and Carrefour in an institutional context. Moreau (2008), Chuang et al. (2011) and Xu et al. (2014) compared strategies and experiences of Wal-Mart and Carrefour in China. *Strategic Direction* (2008) analyzed how Wal-Mart, Tesco and Carrefour do battle in China and Japan. The studies by Samiee et al. (2004), Siebers (2011), Siebers (2012) and Siebers et al. (2015) involved all four cases.

The four companies ( $n=4$ ) were contacted through telephone and personal relationships, explaining the purpose of the study and the time required, and all agreed to participate.

### 3.3. Data collection and analysis

The data collection focused on the management practices of the chosen TNCs and how these practices impacted on the institutional settings in China's retail sector. It involved two stages: the early stage of market expansion, from 1995 to 2004; and the development stage of market expansion, from 2005 to 2014. The data were collected in 2005–2006 and 2013–2014 by two approaches: face-to-face interviews with senior executives and experts, and a broad range of documental data to verify the primary data (Perry and Bodkin, 2000).

In the first approach, 19 in-depth interviews ( $n=19$ ) were conducted, including 15 with senior executives at regional and national levels of management who were responsible for or thoroughly understood the implementations of management practices of their firms. Four expert views were sought from the CCFA, the China Retail Research Centre, and a major supply company (which provides products for the majority of retailers in China, including all selected firms). The details of these 'elite informants' (Yin, 2003) are listed in Table 1.

The interview format was of an open-ended, semi-structured nature (Gillham, 2005). Close dialogue (Clark, 1998, 2007), which relies on the closeness of researchers to the respondents and in which the conversations are set as received opinions against informed expectations, only partly fitted with the data collection. Researchers do need to know their respondents directly or indirectly or show trustworthiness to them in the Chinese context. This can normally be done through interpersonal connections in China (e.g. Tsui and Fahr, 1997), which are transferrable, i.e. A knows B; B knows C; then A knows C (Wang et al., 2005). When this is the case, the interviewees are in a more comfortable position to answer questions and release true facts and thoughts, as trust has been established. Thus, probing questions were asked when appropriate, and the interviewees gave consent to releasing their responses anonymously (see Siebers, 2011).

In the interviews conducted in 2005–2006, the interviewees were asked to explain what factors had influenced their firms' expansion process and how they responded to these factors, including the dynamics of China's market environment and local consumers. The probing questions mainly emphasized their responses to laws and regulations, cultural differences, local consumers and store locations. In the interviews conducted in 2013–2014, the interviewees were asked to explain their management practices to respond to the changes in China's market environment, the drivers and motivation of these practices, and their effects on the local retail sector. The probing questions for this period emphasized their practices that helped to enhance their competences and maintain or improve their market reputation and competitive advantage after all the restrictions were released for their expansion. Different probing questions asked at different stages ensured that the identified themes in this longitudinal



**Table 1.** The details of interviews

No.	Retailer	Country of origin	Retail format	Title of interviewees	Nationality of interviewees	Gender	Language used	Location	Time
1	Wal-Mart	The USA	Food Grocery	Operations Executive	American	Male	Chinese	Shanghai, East China	2005–2006
2	Metro	Germany	Warehouse Cash & Carry	Purchasing Manager, North China	Chinese	Male	Chinese	Beijing, North China	2005–2006
3	Metro	Germany	Warehouse	International Affairs Executive, North China	Chinese	Female	Chinese	Beijing, North China	2005–2006
4	Wal-Mart	The USA	Food Grocery	International Affairs Executive, North China	Chinese	Male	Chinese	Beijing, North China	2005–2006
5	Carrefour	France	Food Grocery	International Affairs Executive, North China	Chinese	Female	Chinese	Beijing, North China	2005–2006
6	CCFA	China	Non-Profit	Chairman	Chinese	Female	Chinese	Beijing, North China	2005–2006
7	CCFA	China	Non-Profit	Senior Executive	Chinese	Male	Chinese	Beijing, North China	2005–2006
8	Wal-Mart	The USA	Food Grocery	Regional Executive, Central China	Chinese	Male	Chinese	Changsha, North China	2005–2006
9	Metro	Germany	Warehouse Cash & Carry	Expansion Manager, Central China	Chinese	Male	Chinese	Changsha, Central China	2005–2006
10	Supply company	China	Wholesale	Regional Executive, Central China	Chinese	Male	Chinese	Central China Changsha,	2005–2006
11	Wal-Mart	The USA	Food Grocery	Regional Executive, Northeast China	Chinese	Male	Chinese	Central China Shenyang, Northeast China	2005–2006
12	Tesco	The UK	Food Grocery	International Affairs Executive, China	British	Male	English	HertfordshireUK	2005–2006
13	Metro	Germany	Warehouse Cash & Carry	General Manager	Chinese	Male	Chinese	Shanghai, East China	2005–2006
14	Wal-Mart	The USA	Food Grocery	Deputy Manager	Chinese	Male	Chinese	Beijing, North China	2013–2014
15	China Retail Research Centre	China	Academic/ Consultancy	Director	Chinese	Male	Chinese	Beijing, North China	2013–2014
16	Carrefour	France	Food grocery	Store manager	Chinese	Female	Chinese	Beijing, North China	2013–2014
17	Carrefour	France	Food grocery	Store manager	Chinese	Female	Chinese	Beijing, North China	2013–2014
18	Wal-Mart	The USA	Food grocery	Expansion Executive	Chinese	Male	Chinese	Shenzhen, South China	2013–2014
19	Metro	Germany	Warehouse Cash & Carry	Customer Relationship Executive	Chinese	Male	Chinese	Shanghai, East China	2013–2014

study responded to the Chinese retail market characteristics and its institutional changes. This *within-method triangulation* of data from interviews with executives of the chosen TNCs and expert informants in different periods helps to verify the accuracy of explanations of various concepts and concrete situations concerned (Flick, 2004).

All the interviews were carried out by the author, who is Chinese and English bilingual, in different parts of China as shown in Table 1. The interviews with Chinese managers and experts were conducted in Mandarin (89%), and the ones with English speaking executives were conducted in English (11%). The interviews lasted up to 2 h each and were not tape-recorded, because this would have inhibited interviewees' readiness to speak openly, particularly in China (see Tsang, 1998; Stening and Zhang, 2007; Gamble, 2010; Siebers, 2011). The interviews were transcribed directly by the author during the interview. Tape-recording interviews would inhibit interviewees' willingness to speak openly in China (Gamble, 2010). The transcriptions were immediately computerized after each interview while the memory of the interview was still fresh—this enhances validity (Whyte, 1994). The organized notes were sent back to the interviewees. This verifies the accuracy of the data (Morse et al., 2002).

In the second approach, a wide range of secondary data was collected, both internally and externally to the TNCs, to complement the interview data (Perry and Bodkin, 2000). The internal data were derived from the companies' websites, reports and archival documents. The external data were collected from newspapers, statistical yearbooks, website articles, press interviews, and academic books and articles, searched by using each firm's name, expansion and practices as keywords. In total, about 50 articles per retailer were collected, amounting to 200 articles altogether ( $n = 200$ ). These secondary data helped define the profiles of the cases and yielded important insights into the internal functioning of these firms. This *between-method triangulation* of secondary data and interviews mitigates the potential issue of being told a particular set of stories by the media-sensitive executives (Yin, 2003; Siebers, 2011; Wood et al., 2016) and helps to capture different aspects of the research issues (Flick, 2004). The collected data were organized by using ordinal numbers as archives.

The longitudinal research with mixed data collection methods provided opportunities to discuss findings at an early stage with the expert respondents (see Lincoln and Guba, 1985). The research questions and interview protocols were assessed and redefined, as the researcher's understanding grew and new themes emerged (Elger and Smith, 2005). The data analysis process followed an inductive approach (Lindlof, 1995). The interview transcripts were closely read, and content analysis was applied to search the text for recurring words, themes and core meanings for emergent classifications and patterns. The multiple cases allowed searching for cross-case patterns (Eisenhardt, 1989).

#### 4. Findings and theoretical development

The findings show that in responses to the local institutions, the retail TNCs' practices presented not only heterogeneous characteristics by using different approaches to respond to the local governments, competition and business networks, but also presented homogeneous characteristics by implementing similar approaches to alter local institutions, involving corporate social responsibility (CSR) strategies, employee retention and quality control. In responses to local consumers, the TNCs' practices

presented homogenous characteristics, regarding their tailored offerings, targeting, new market ideology, store location, price and cost leadership.

#### **4.1. Heterogeneous adaptation and alteration of local institutions**

##### **4.1.1. Adaptation, fairer competition and change**

The case study of TNCs tend to adapt to central and regional/provisional government policies in China to secure support from external institutional referents (DiMaggio and Powell, 1983). The adaptation process was achieved in different ways across the cases. Some TNCs (e.g. Wal-Mart and Metro) obeyed the laws and regulations, particularly at the early stage, driven by rational motives (Tolbert and Zucker, 1983). In the first decade, Wal-Mart fully adapted to both central and regional government policies and followed all the procedures for each store opening. Consequently, its expansion speed was much slower than that of Carrefour, which did not always obey laws and regulations. Such behaviour of Carrefour was closer to the Chinese management practices at that time when laws and regulations were not always clearly defined and followed with consistent standards by firms (Zhen, 2007). By following laws and regulations, Wal-Mart tended to create a fairer business environment, e.g. they did not charge display fees from its suppliers in contrast to other retailers, e.g. Carrefour. Over time, Wal-Mart gained trust from Chinese governments, being set as a role model of rule-following. One senior executive stated:

We tend to adapt to both central and regional government policies, because we prefer a fair business environment by following laws and regulations. (Interview 11, Regional Executive, Wal-Mart, Northeast China, 2005)

Wal-Mart influenced the changes of China's retail environment from an often unfairly competitive one to a more lawful and regulated one, in which rules and regulations were followed more strictly and the importance of personal relationships abated. Despite the relatively slow pace of Wal-Mart's expansion at the early stage, it ultimately achieved long-term legitimacy. The reputation gained enabled Wal-Mart to take over Taiwan's Trust-Mart in 2006, adding over 100 shops to its Chinese operations and expanding its network to 338 shops in 124 Chinese cities by 2011 (Artefact 120, news article).

In comparison, the international experience gained by Carrefour from Asia, particularly from Taiwan, helped the company to expand quickly in the first decade, becoming the most successful foreign retailers in China. Carrefour believed that the good relationships they had with the regional governments played an important role in their growth.

The success of our expansion is much attributed to the support we get from the regional governments, and we always keep good relationships with them. (Interview 5, International Affairs Executive, Carrefour, China, 2005)

However, during the first decade, Carrefour also violated rules to open stores, e.g. expediting its store opening without the permission of the central government as required; shareholding beyond the legal limit (65%) in the late 1990s, such as possessing wholly owned stores illegally (Li and Wang, 2006). Such behaviour was likely derived from Carrefour's adaptation to the Chinese management practices in

which loopholes in laws and regulations were not uncommon at the early stage (see Zhen, 2007).

The reason why we do not strictly follow the central government's policies at times is because the central government did not always provide clear rules. Since the central governmental policies and regulations became clearer, we have started to follow these policies and regulations strictly. (Interview 12, International Affairs Executive, Carrefour, China, 2005)

Carrefour had to adjust its flexible approach to expansion adopted at the early stage, because it failed to fit in with the institutional changes in the market over time. The company had to start to follow government regulations more strictly at the development stage. This phenomenon was particularly eminent after Carrefour was punished in 2006 and 2007 for its over-flexibility in breaking regulations to illegally open stores and its bribery activities with suppliers (Artefact 11, news article). Consequently, Carrefour's expansion process slowed down after 2006, due to store closures by enforcement for those opened through breach of government regulations and the adjustment of its expansion strategies.

Our expansion has slowed down; however, we continue to grow steadily... For every store opening, we follow the given procedures, and our actions are standard throughout China. (Interview 16, Store Manager, Carrefour, North China, 2013)

In the first decade, Carrefour took the first-mover advantage by utilizing less severe regulatory pressures (Wang and Zhang, 2005) and established local dominance of key locations (Durand and Wrigley, 2009). Albeit Carrefour's top position of growth being taken over by Wal-Mart in 2011, it remains one of the top players in the market, attributed to its risk-taking strategies for rapid adaptation at the early stage and its capability to quickly adjust its business practices, by following laws and regulations more strictly at the development stage.

Metro showed a similar case to that of Wal-Mart, but selectively implemented both Chinese central and regional government policies as far as their own benefits and key characteristics of business operations were concerned. They tried to avoid following any unfavourable regulations unless those regulations were mandatory.

Government policies and regulatory changes are crucial for our growth in China. If they are not mandatory, we selectively employ these policies. We only adopt those that are beneficial for our expansion. (Interview 2, Purchase Executive, Metro, North China, 2005)

Metro also promoted their own business practices, making the most of their own effective methods of business operations through a combination of different institutional logics.

We have three core competencies: we offer a comfortable purchase environment, quality assurance, and a legitimised transaction model that provides an invoice for each purchase, in contrast to businesses in some other wholesale stores where no invoices are available and there is no quality assurance. These bring a piece of 'clean land' into the Chinese market... (Interview 13, General Manager, Metro, East China, 2005)

The transparency and fair competition promoted by Wal-Mart and Metro has been exemplified by Chinese central and regional governments and replicated by other retailers, e.g. termination of display fees for suppliers (Artefact 53, news article) and treating suppliers as part of the team (Artefact 56, news article). Such management practices set up role models for fairer business competition and enhanced these TNCs' territorial embeddedness. In this case, the institutional support of China's retail environment encouraged the diffusion of the strategic choices of these retail TNCs. Consequently, they were able to behave more flexibly in a more lawfully competitive environment, partly created by themselves. As such, they enhanced their core competencies by not only improving firm performance, but also influencing the host market conditions for long-term legitimate solutions (Scott, 1987; Durand and Wrigley, 2009). Ultimately, Wal-Mart and Metro were able to catch up with their rivals on expedition of store opening in the second decade.

However, when Wal-Mart and Metro started to expand fast in the new, fairer institutional environment they had created, they somehow lost their organizational identity.

We wanted to expand faster and faster. Over the past years, our store locations were not appropriately selected, and our performance has worsened recently due to many procedures missing in store openings... more centralization is now needed and is taking place... (Interview 18, Expansion Executive 3, Wal-Mart, Shenzhen, 2013)

Metro has started to grow more quickly in recent years, but this has not brought such good results as expected... because our store locations are no longer well selected due to being decided on quickly. Most of our profit is now used to pay rent... More vigilant expansion plans are needed... (Interview 19, Customer Relationship Executive, Metro, East China, 2013)

Apparently, the management practices implemented by the TNCs are going beyond the concern of global integration and local adaptation (Bartlett and Ghoshal, 1989; Swoboda et al., 2014), as neither both ways nor either way has been proven effective in the long run. The new institutional logics created by some retail TNCs have been accepted by and merged into the host market (e.g. those introduced by Wal-Mart and Metro in the first decade), forming a new institutional environment, to which if the creators did not adapt, they would need to re-learn. Although their faster expansion faced new challenges of losing control and profit, the constant learning has helped them to 'rein in at the brink of the precipice', and a new centralization process is already in place for the companies (e.g. Wal-Mart, Metro and Carrefour).

The adaptation of the local market was essential for fast expansion at the early stage (e.g. Carrefour), but global integration offered some retailers a healthy start at that stage, though their expansion was slower (e.g. Wal-Mart and Metro). The findings did not fully support the proposition regarding effective learning and imitation between the market participants (Lowe et al., 2012), because the learning of Wal-Mart and Metro in the second decade from the behaviours of Carrefour in its first decade led to negative results for the former firms. The antecedents to and the outcomes of the retail TNCs' hybridization process show a more complex case of expansion than replication, learning and imitation, resulting from the institutional dynamics in an emerging market. Here I aim to shed light on the nascent areas of discretion of alternative repertoires of action and responses to institutional complexity (see Greenwood et al., 2011).



#### 4.1.2. Responses to business networks and empowerment

At the firm level, during the early stage, the retail TNCs were faced with internationalization issues, such as lack of host market knowledge, e.g. *guanxi* networks (links between business and interpersonal relationships in China) and shortage of suitable employees in management positions. *Guanxi* often seemed alien to foreign managers, and the need for it often bewildered the retail TNCs. To respond to such issues, Carrefour and Tesco established strong business networks in different regions, benefitting from their past experience in Asia. They empowered local management teams to maintain these networks.

We have been benefiting from collaborations with regional partners, and we have not had any problems with regional governments... because we learned a lot from our operations in Taiwan... [since 1989]. (Interview 5, International Affairs Executive, Carrefour, North China, 2005)

To adapt to regional business networks, we empower Chinese management teams to deal with our regional stakeholders and establish *guanxi* networks. (Interview 12, International Affairs Executive, Tesco, China, 2005)

This cultivation of effective local business networks was conducive to Carrefour and Tesco's rapid expansion (see Yeung, 1994; Chen and Chen, 1998; Coe and Wrigley, 2007). Tesco has continued to apply its unique business model of 'being local' since its market entry, and applied a similar strategy of empowering local management expertise when embedded in South Korea (Coe and Lee, 2006). Its decentralized decision-making via delegation is positively associated with strategic flexibility (Bock et al., 2012), through which the organization increases its ability to identify opportunities for innovation (Shimizu and Hitt, 2004).

Wal-Mart and Metro adopted ethnocentric management orientation in the first decade, although they were aware of the importance of local business networks (see Siebers et al. (2015)'s critique on ethnocentricity of foreign retailers in China in the first decade).

At times, we, Chinese colleagues, feel embarrassed by not following the Chinese culture when dealing with local governments... we do not provide any gifts for the local governments even when we need to meet the local officials during a festival, such as the Chinese New Year. (Interview 11, Regional Executive, Wal-Mart, Northeast China, 2005)

Over time, Wal-Mart and Metro learned to follow a more hybrid management style through collaboration with regional partners, putting incremental efforts into training and increasing the level of empowerment to Chinese managers. Metro appointed a Chinese Deputy Executive with particular responsibility for establishing business networks with Chinese governments. Wal-Mart realized that solely relying on effective business networks with local governments may not help to maintain their competitive advantage in the long term. Its business networks have gradually been extended to local suppliers.

We keep good relationships with our suppliers [in China]. We even provide them with education, concerning how to produce high quality, low cost products and how to use appropriate packaging and transportation methods. (Interview 18, Expansion Executive, Wal-Mart, Shenzhen, 2013)

Wal-Mart's deepening relationship with suppliers extends its territorial embeddedness in the host market (see Coe and Lee, 2013). The findings show the retail TNCs dealt with business networks differentially, including effective inter-firm relationships, e.g. with their suppliers, and extra-firm relationships, e.g. with the governments (see Nohria and Ghoshal, 1997; Cheng et al., 2014).

Overall, at the early stage, the retail TNCs mainly learned to adapt to the local market, motivated by conformity pressures (Tolbert and Zucker, 1983), applying conservative or flexible management approaches across the cases (Siebers et al., 2015). Simultaneously, they tended to retain their own corporate culture and gradually shifted their practices to being more focused on the local market at the development stage.

## 4.2. Homogenous adaptation and alteration of local institutions

### 4.2.1. CSR strategies

The retail TNCs increased their organizational reputation and qualities to create value by following their goals and utilizing their abilities and resources (see Fiske et al., 2002; Rindova et al., 2007; Mishina et al., 2010). Wal-Mart and Metro endeavoured to establish CSR strategies for strengthening their public relations. By doing so, they maintained strong business relationships with the public and their suppliers.

We pay great attention to social responsibilities and require our suppliers to obey laws and regulations too. We require our suppliers to ensure that they provide various social welfare systems for their own employees, and we visit their factories to make sure they do so. (Interview 1, Operational Executive, Wal-Mart, China, 2005)

Through CSR activities, the TNCs enhanced their company reputation in China by engaging and satisfying a larger number of stakeholders. Wal-Mart was given the 'Best Corporate Public Image Award—Multinational Corporation' in 2009 (Artefact 98, news article); it was also named the 'Most Influential Enterprise in 2011' and 'Outstanding CSR Company' in 2011 (Artefact 135, news article). Carrefour's donation of two million Yuan as the first donor to the Sichuan earth quake victims in 2008 with its subsequent donation about 21 million Yuan helped to make up for the negative image the French government had caused by its debate on whether China should hold 2008 Olympic games (Artefact 61, news article). As a new way of creating value, CSR has now become one of the key marketing strategies for success in China's service sector, especially through provision of green businesses, sustainability and donations (Artefact 190, journal article).

The so-called 'Wal-Mart Effect' for a decent society (Fishman, 2006) and for business and ethics (Freeman, 2006) helped Wal-Mart undertake value enhancement activities rapidly at the development stage. It won a number of state awards between 2009 and 2012, including 'Best Company to Work For', 'Most Trustful Brand' and 'Best Corporate Image Award' (Artefact 178, news article). Consequently, Wal-Mart created its own 'identity' that distinguishes itself from other organizations, particularly from its rivals in the same institutional category (Dutton and Dukerich, 1991; Stryker and Burke, 2000; King et al., 2010; Lowe et al., 2012).

The achievements from these types of practices lead to neo-liberal forms of regulations that help to seek for new kinds of legitimacy in pursuit of good firm performance (Arvidsson, 2010; Orlitzky et al., 2011). 'The exercising of CSR may be

regarded as reinforcing the powerful position of the corporation' (Bergström and Diedrich, 2011, 915). Indeed, in the process of adaptation, the retail TNCs have shifted the foci of their business operations in China from the governments to the society to enhance their territorial embeddedness. A society is constituted of multiple institutional logics, which can interact and compete for influence in all societal domains (Nigam and Ocasio, 2010). With fast economic growth, the Chinese society changes its dominant pressure from compatibility with government rules to positive responses to societal needs, e.g. donation and educational support. Freeman (2006) argues that any business is a set of relationships between stakeholders, and at some points of the business development, one or some of these stakeholders may be more important than others, and new stakeholders sometimes emerge. My findings show the nature of the relationships formed between the TNCs and the local regulators and consumers has changed over time, and the nature of the TNCs' territorial embeddedness has evolved (see Wrigley et al., 2005). Tesco's post-entry dynamics in South Korea presented a similar case. Its localization approach to achieving territorial embeddedness has been reshaped by host market competitive conditions, driving Tesco to focus on innovation and changes (Coe and Lee, 2013). Hybridization in this context is presented as an iterative process, in which the retail TNCs learn continuously. Then, they are in a better position to pre-empt and manage society resistance and ultimately become more efficient at contributing to society development (Pache and Santos, 2013). This has been achieved by engaging communities through CSR strategies that are responsive to their own needs and context. Thus, hybridization exhibits efficiency by drawing from the broader repertoire on behaviours prescribed by their competing ownership logics (Greenwood et al., 2010). A stronger foundation has therefore been formed by the TNCs to expedite their expansion in the second decade.

#### **4.2.2. Employee retention**

The retail TNCs are continuously engaged in employee development, training and empowerment. Over the two decades, they implemented incremental incentives, empowerment policies and a series of motivation strategies to retain talents.

We try to empower our store managers, because they know how to operate the stores the best. ... The managers, including the CEO [for China], often visit the shop floors to listen to what our employees say. If there are problems, we solve them immediately. (Interview 14, Deputy Manager, Wal-Mart Headquarter, 2005)

The effectiveness of these practices was even stronger in the second decade.

Training, motivation, and incentives are our key strategies, led by our new [French] CEO for China, [whose Chinese name is] Tang Jianian. He listens to store managers' voices. ... I was recently sent to France the first time [in my 10 years' employment] to visit our home country's stores and to learn. We were also taken to Lijiang, a wonderful place, to have our team building activities. ... we feel respected. We admire our leader; he could read his speech in Chinese, which was very touching. Incentives have become stronger. We feel happy, we deliver more, we perform better, and we love our company and become more loyal. (Interview 16, Store Manager, Carrefour, North China, 2013)

Carrefour provides particularly strong incentives for managers from a first tier city to move and work in a second or third tier city. The company will raise their salary, provide compensation to their family members, solve school issues for their children, and pay at least four round trips per year for them to visit home instead of two trips, otherwise.

However, at times, over-empowerment may not bring the positive results, because over-flexibility may lead to loss of control. This was experienced by Carrefour in the first decade (Siebers et al., 2015) and by Metro and Wal-Mart in the second decade.

We started to empower local managers more since 2006 to speed up our expansion. We hired a Chinese CEO, who followed a very fast expansion strategy between 2006 and 2011. Many issues occurred during such fast expansion, including losing quality control and not following store opening procedures strictly.... We were losing our corporate identity... now we take more control again by having Americans as top decision-makers.... Overall, we see a good career prospective working for Wal-Mart, and it is one of the foreign firms that will certainly grow in China. (Interview 18, Expansion Executive, Wal-Mart, Shenzhen, 2013)

Apparently, the retail TNCs face a dilemma between the degree of empowerment and control in responses to local institutions, employee retention, corporate identity and firm performance. Their dynamic hybrid approaches require a well-balanced organizational structure, and they are under pressure to continuously reassess their degree of centralization or decentralization (see Wood et al., 2016).

#### **4.2.3. Quality control**

Product quality was a key concern for the retail TNCs in their process of internationalization in China.

We monitor product quality through customer complaints and inspection of suppliers' factories. If we found serious quality issues, we may terminate our cooperation with the supplier involved. (Interview 1, Operations Executive, Wal-Mart, China, 2005)

The TNCs have paid greater attention to quality control procedures in the second decade. In a gradual process, a quality control system has become a legal procedure in China's retail sector, triggered by these TNCs, which has enhanced the overall food quality in China's market.

We have a 'Food Safety Management Tool' board hanging up just in front of the entrance.... We emphasize healthy products and hygiene and educate our customers too. We provide a machine in each store that shows our customers exactly where the food is originally from and what nutritional value it has, when customers scan the labels using the machine.... (Interview 17, Store Manager, Carrefour, North China, 2013)

The Chinese regional governments support the food safety procedures of these foreign retailers and promote their ways of improving product standards. When Carrefour stores launch new products, involving new nutrition or a unique hygiene procedure, they normally hold a news briefing, at which provisional/city government officials are normally present to support. Carrefour has been praised by Chinese governments as a

good exemplar of food quality control, and local retailers learn or are requested to learn from Carrefour. Metro presents a similar case:

We have a systematic quality control system. We have a Hazard and Critical Point Control System on food safety. We joined the Star Farmer Association in 2008 to enhance our 'Traceability system', i.e., customers are able to know where the food comes from when a bar code is scanned in store. We follow a 'SOP' system, that is, Standard Operation Process. (Interview 19, Customer Relationship Executive, Metro, East China, 2013)

The findings show that the TNCs respond to the institutional complexity under their 'new' identities perceivably and positively through their organizational actors (Dutton et al., 2009) and new ways of achieving territorial embeddedness. They condition their organizational approach to institutional demands (Greenwood et al., 2011) through managing their 'multiple organisational identities' (Pratt and Foreman, 2000, 18). This strong sense of organizational identity reinforces their organizational confidence in their ability to comply with external demands (Milliken, 1990; Gioia and Thomas, 1996; Lowe et al., 2012).

### **4.3. Homogenous adaptation and alteration of local consumption patterns**

#### **4.3.1. Product offerings and targeting**

The traditional retail format in China was dominated by mom-and-pop stores and urban markets (Wang, 2011). In order to introduce the new market ideology of shopping at supermarkets/hypermarkets, the retail TNCs retained a customer orientation across regions by providing a physical environment that matches the shopping habits of Chinese consumers. All the TNCs have a 'wet fish market' in their stores, as local consumers prefer live seafood. In this way, they create a new form of competition in the retail sector. Their promotion strategies and product ranges have also been combined with both Western and Chinese styles, e.g. the use of red colour labels and posters for promotion and selling food products favoured by local customers, like fermented tofu and loose grains, which are not normally seen in stores in their home markets. They also import food products, e.g. apples and peppers, from their home markets to attract customers who prefer more variety. The TNCs have successfully responded to local customers, who have various preferences for food flavours and ingredients across China. For example, customers in Southern China prefer sweet tastes, those in the North like salty flavour and those in the Southwest prefer spicy food (Interview 12, International Affair Executive, Tesco, China, 2005; Artefact 2, monograph). They provide distinctive product offerings in different regions through embeddedness in regional supply networks. This approach greatly helped to change the shopping habits of Chinese consumers from urban open markets to supermarkets/hypermarkets and diversify their shopping styles.

In China, people from different regions have different preferences and buying behaviours; we particularly consider the unique culture, tastes, and shopping habits of different customers in different regions. (Interview 2, Purchase Executive, Metro, North China, 2005)

The retail TNCs set up clear market segments in China, with Wal-Mart, Carrefour and Tesco targeting mass customization and Metro targeting the mid- to high-end segment.



We have a clear positioning strategy on our branded products to hotels, restaurants, and canteens. We advocate a concept of high quality products, and we maintain our brand positioning by targeting the mid- to high-end customers... We pursue transparency, management support, detailed segmentation, and a maximised supply system. (Interview 19, Customer Relationship Executive, Metro, East China, 2013)

Tesco's 'local' brand strategies, e.g. remaining its acquired stores' name at the early stage, have been effective for retaining customers (Artefact 65, news article) and achieving territorial embeddedness. Tesco applied a similar strategy in South Korea (Coe and Lee, 2006). In this way, Tesco gained legitimacy more rapidly by locating itself within established institutional categories (King et al., 2010; Gioia et al., 2010; Greenwood et al., 2011), in which Chinese retailers possess the main dominant market positions. Tesco's subsequent new JV formed in mid-2014 with a state-run company—China Resources Enterprise (CRE) was seen as a smooth action by Tesco itself, aiming to create a large food retailer and retain local consumers in the long term. However, its share of ownership dropped from 96% (an increase from 50% in 2006) in its acquisition format with Hymall, a Ting Hsin subsidiary based in Taiwan, to 20% in the new venture (Interview 12, International Affairs Executive, Tesco, China, 2006; Artefact 200, news article). This dramatic decrease in ownership weakens Tesco's market share and profitability in China. Consequently, all Tesco stores' name is to be replaced by a new, Chinese name under the new venture from 2015. In this case, Tesco's 'multi-scalar embeddedness' at the national level in Asia, by which the retailer tends to transfer its capabilities across its Asian markets (Wood et al., 2016, 491), has not shown the expected success in China.

#### 4.3.2. Service offerings

The TNCs penetrate their new retail ideology and deepen territorial embeddedness through provision of tailored services. To respond to the low level of car ownership and promote the concept of one-stop shopping further away from the urban markets, they provide regular free pick-up bus services between relatively affluent residential areas and their stores. They also allocate sufficient staff members on the shop floor/between aisles to assist customers, which they normally do not offer in their home countries. To improve service efficiency and respond to the fact that Chinese consumers shop frequently with small purchase volume each time, some of the TNCs arrange a large number of smaller check-outs to shorten the check-out time, e.g. one of the Wal-Mart's Shanghai stores has 50 check-outs in 25 rows. Each row has two short check-outs, and each check-out has a 1.2 metres or so short-belt. Two cashiers in the row stand back to back, being able to serve customers simultaneously.

We found that many Chinese people treat supermarket shopping as a leisure activity... Chinese tend to do window shopping and make smaller, but more frequent purchases. According to these, we designed small check-outs in our stores to improve our customer service. (Interview 1, Operations Executive, Wal-Mart Headquarter, China, 2005)

Some of the TNCs offer membership and wholesale businesses, serving customers who run small businesses, including Metro and Wal-Mart (Sam Clubs). Despite a larger amount of sales per time through this format, Wal-Mart and Metro were not involved

in any commission charges from buyers and bribery activities, treating all their suppliers equally and exemplifying good business practices, particularly in the first decade.

Our JV operation mode determines our transparent purchase system... We lost some customers in the short term, but we aim at a long-term operation mode. Because of this transparency, gradually more and more enterprises like to do business with us. (Interview 13, General Manager, Metro, East China, 2005)

The TNCs adopted similar patterns in the provision of products and services, taking a foreign-local approach of hybridization to strengthen their market embeddedness. The provision of customer-oriented products and services helps to meet the needs of Chinese customers and adds additional value to their shopping experiences. Ultimately, the TNCs penetrated new ways of consumption for Chinese consumers, particularly encouraging the growing number of middle-class consumers to shop in modern retail formats (see Vijayalakshmi and Bhattacharyya, 2012). This phenomenon is supported by the social-cultural philosophy of Bourdieu (1993) which states that tastes in food, culture and presentation are indicators of class, as trends in their consumption correlate with an individual's position in a society. The TNCs use societal embeddedness in the institutional, regulatory and cultural contexts of the home markets, combining with the host market conditions, creating new competitive logics in the host market (Bianchi and Arnold, 2004; Durand and Wrigley, 2009).

#### **4.3.3. Strategic store locations**

The TNCs penetrate their new market ideology and enhance their territorial embeddedness through strategic store locations. The market leader for this is Carrefour, which took the first-mover advantage and chose store locations based on its experiences in Asia. Carrefour offers ample car park and bicycle spaces and provides convenience for transportation and pick-up services.

We have tried to locate our stores in city centres or near residential areas. In order to provide convenience for our customers who do not drive cars, our stores are located where convenient bus services are available, taxis can easily wait outside, and three-wheeled bicycles can be easily parked, so as to wait for customers outside the stores. (Interview 5, International Affairs Executive, Carrefour, China, 2005)

Wal-Mart made strategic changes to its store locations over time, because it did not select appropriate locations at the early stage, when it chose to locate stores on the outskirts of cities, as it did in Western countries. The inconvenient transportation system around Wal-Mart stores resulted in low sales due to the relatively low car ownership, especially in the first decade. Once this issue was identified, Wal-Mart learned from Carrefour and adjusted its location strategies promptly by opening stores in the pedestrianised areas at the end of the first decade, e.g. the stores opened in the shopping districts of Shenyang (Northeast China) and Changsha (Central China) in 2005. Here, inter-firm learning in the cohort was apparent, showing a foreign–foreign hybrid approach through fast learning capabilities.

The TNCs also carefully researched the regional markets before opening new stores, focusing on regional government attitudes, market characteristics, customer preferences, purchase capabilities and competition. Once these factors were considered,

gaining regional government support was the next key element to choosing a location. All the TNCs opened their stores in the most economically developed regions at the early stage: East China (Metro and Tesco), South China (Wal-Mart) and the capital—Beijing (Carrefour). Tesco focused on four regions around its acquired stores at the market entry: North China (Beijing), East China (Shanghai), Northeast China (Changchun) and South China (Guangzhou). These focuses have been slightly re-directed in the second decade, following Tesco's new property JVs formed from 2009, to its subnational regional focuses on the North, East and South China (Wood et al., 2016), but this time Tesco also involves the development of a new retail format—shopping malls.

By the end of 2004, the only entry mode allowed for foreign retailers was JV. To gain the support of regional partners and governments, at the early stage, the TNCs mainly expanded in the areas where their JV partners are located. Metro expanded in the Shanghai region first, where its JV partner-Shanghai Jinjiang Group is located; Wal-Mart expanded around the Shenzhen areas first, close to its JV partner-Shenzhen International Trust & Investment Co. Ltd., after its attempt to opening its first store in Shanghai failed due to lack of regional government support (Artefact 2, Monograph). To respond to the call of the Chinese central government, benefit from lower land cost or land fee waiver offered by regional governments, and gain a larger market share, some of the TNCs took a proactive approach to entering underdeveloped areas, e.g. Wal-Mart and Carrefour entered the West China in the late 1990s, and further penetrated into second tier and smaller cities since 2001 (Siebers, 2011).

We opened our first store in Shanghai, because our JV partner was based in Shanghai. . . Also, different parts of China are developing in an unbalanced way, which was considered during our expansion. (Interview 2, Purchase Executive, Metro, North China, 2005)

Location choices are also institutionalized and dependent on the management considerations of the TNCs. Foreign retailers do not normally buy land and the rent is higher in the first and second tier cities. They had to invest more in land at the early stage when they mainly expanded in the large cities, where land prices are higher. Among the four TNCs, only Metro benefited from buying land instead of renting at the early stage, as the land prices have been growing in China dramatically, particularly in large cities. However, when Metro speeded up its expansion in the second decade, it lost this advantage, because the only way for fast expansion was to rent. Consequently, most of its profit in recent years was spent on rents.

We used to buy land, so that our operational costs were lower [than now]. Now we want to expand fast, and we have started to rent. Consequently, we spend too much money on renting, and our profit has been seriously affected. (Interview 19, Customer Relationship Executive, Metro, East China, 2013)

In the first decade, the TNCs' store locations largely depended on their experiences and strategies. In the second decade, the TNCs expanded into smaller cities, i.e. the third and fourth tier cities, where the improved infrastructure and spending power started to support large merchandise retailers. However, their success in smaller cities has not been apparent, mainly due to the lack of understanding of the culture and the difficulties in dealing with regulators in smaller cities (Artefact 191, news article).

Tesco's new JVs aim to develop Life-space shopping malls, anchored by superstores, to boost its retail brand across China (Artefact 160, company report). However, the success of this format remains uncertain. For instance, Tesco's first Life-space shopping centre in Qingdao, opened in 2010, was sold in 2013, following the closure of the Tesco store located in the centre due to lack of competitive advantage (Artefact 189, news article). It is evident that the demanding Chinese consumers and the dynamic market environment require retailers' constant strategic responses (e.g. Chinese customers' preference has recently changed from going to shopping malls to online shopping, and local market competition has increased, Artefact 198, news article).

#### **4.3.4. Price and cost leadership**

Price remains the most important factor to satisfy Chinese customers in the retail sector (Siebers et al., 2013). The low prices provided by the TNCs mainly benefited from their large economies of scale (Dunning, 2000) for purchasing both Chinese and imported products. Also, a number of purchasing centres have been established since their market entry, extending their territorial embeddedness (see Coe and Lee, 2013). The low-price strategy helps the TNCs to maintain their competitive advantage in China, and ultimately worldwide.

We provide low prices every day... we have achieved a high level of economies of scale. We have now set up six purchasing centres in China, selling a large amount of our own branded products, and these purchasing centres have also helped us to make profits by sending products worldwide. (Interview 18, Expansion Executive, Wal-Mart, Shenzhen, 2013)

In the meantime, the TNCs maintain their cost leadership status by shortening supply chains and enhancing advanced technology, e.g. information systems, distribution systems and inventory systems.

We purchase directly from suppliers to reduce middleman costs. We also invest a huge amount of capital in distribution and information technology, establishing commodity distribution centres, improving effectiveness of product turnover, and reducing inventories. We further assist our suppliers to improve their production processes and reduce costs. (Interview 1, Operational Executive, Wal-Mart, China, 2005)

The above management practices contribute to continuous improvement in the quality of the products and services offered by local suppliers (Interview 10, Regional Executive, Supply Company, Central China, 2005). Shared similarities in such management practices formed a cohort of new market players with effective business innovations (Sorescu et al., 2011). Casadesus-Masanell and Zhu (2013) evidenced that the value of new business practices is so substantial that an incumbent prefers to compete in a duopoly rather than to remain a monopolist. From the current research however, I observed even a 'multipoly', as the practices of the TNCs present a certain degree of homogeneous hybridization.

## **5. Conclusions**

This article aims to articulate organizational responses of retail TNCs to the institutional demands of an emerging host market over time. It was found that the

retail TNCs respond to the dynamic Chinese institutional environment through hybridization, and their management practices evolved in the past two decades. The transfer of their management practices goes beyond the resistance, as those that do not align with the host market subtly alter its norms and practices. In this case, the retail TNCs, to some extent, alter the host market institutions and consumption patterns. To sustain competitive advantage and enhance territorial embeddedness, the experienced retail TNCs switch their key stakeholders from the governments to their businesses, the society and the consumers over time.

The retail TNCs apply hybrid practices and adjust the degree of their adaptation and alteration over time, showing both heterogeneous and homogeneous characteristics. They are not simply institutional takers but actively influence institutional changes in the host market (Durand and Wrigley, 2009). Thus, the retail TNCs create new competitive space as much as they adapt to the local economies (Marsden et al., 1998). The knowledge of their rivals regarding these newly created competitive pressures and the responses to such pressures become significant for their sustainable success.

To some extent, the retail TNCs may need to respond less to organizational efficiency than expected (see Swoboda et al., 2014). The regulatory environment has been tightened up in China, not only for food quality, but also for new store openings etc., for which formal procedures need to be followed by all retailers. Indeed, territorial embeddedness is often constrained by institutional forces in the Chinese context (Wei, 2015). A more centralized hybrid system has been adopted by the TNCs to survive and compete in China. Tesco confronted a similar situation in South Korea after a decade of operation. It faces new regulatory changes with restrictions of large store openings and severe market saturation, albeit Tesco's initial new format was influential there (Coe and Lee, 2013). Therefore, to achieve long-term legitimacy, the nature of retail TNCs' territorial embeddedness evolves, particularly at their development stage in a host market.

It was found that the retail TNCs apply the 'flexible replication' strategy to combine their core competencies with adaptation to create new knowledge that is transferrable across their organizations (see Jonsson and Foss, 2011). To succeed in the long term, this replication needs to respond to the characteristics of a culturally different emerging market with changing institutional demands over time. The Chinese regulatory institution required retail TNCs to form JVs by late 2004, as the cases of Wal-Mart, Carrefour and Metro. Tesco chose acquisition at the entry after the restriction had been lifted. Both partnerships helped the TNCs to understand the local market (Siebers, 2011, 2012). Overall, what mattered more for successful retail internationalization in China in the past two decades was the retail TNCs' management practices rather than entry mode (see also Coe and Lee, 2006; Dawson, 2007; Siebers et al., 2015).

In the past two decades, the retail TNCs' management practices were not 'Western' or 'Chinese' in their approaches but hybrid: flexible in learning and aiming for long-term legitimacy. Nevertheless, their future in China remains unpredictable. From 2010, the profit of large retail TNCs in China has declined due to the fast changing consumption patterns, e.g. more customers prefer shopping online, and the continuous increase in consumption power and competition. Since mid-2015, the retail TNCs have been in the process of establishing urgent strategies to respond to these new demands, e.g. renovating existing stores, developing new formats and introducing innovative online shopping experiences (Artefact 198, news article). Similarly, Tesco's strategic localization has also become a dynamic process in South Korea to respond to the



institutional changes it faces there, e.g. shifting to format innovation, deepening supply networks and expanding retail offerings (Coe and Lee, 2013). It is apparent that the changing nature of territorial embeddedness over time leads to hybrid behaviours of retail TNCs, and the dynamics of hybridization remain challenging for retail TNCs to strike a balance and succeed in a long haul.

The limitations of this study generate several future research topics. This study concerns only large general merchandise TNCs operating in China. The consideration of other types (e.g. fashion retailers) and sizes (e.g. small- and medium-sized) of retailers may offer additional insights into the dynamics of hybridization and territorial embeddedness. The entry modes involved in this article were JVs and acquisition. Since China's retail market has been fully opened, future studies on other types of operational modes or ownership may provide further contributions to the conceptualization of hybridization in the context of (de)institutionalization and geographical development. Finally, quantitative surveys would provide additional insights by offering a larger sample size. Overall, this study aims to shed light on further investigations on how hybridization management practices help respond to host market conditions effectively by striking a sustainable balance between the logics being combined, particularly at the later stages of firm internationalization, e.g. the post-entry, assimilation and divestment stages.

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