EDUCATIONAL SAMPLE ONLY

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Navigating Global Markets: A Critical Analysis of Tesco plc's Internationalisation Strategy

International Business Case Study — Educational Sample

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1. Introduction

The internationalisation of business operations represents one of the most strategically complex decisions facing contemporary firms. As globalisation deepens and domestic markets mature, organisations increasingly look beyond national borders to sustain competitive advantage, diversify risk, and exploit firm-specific capabilities in new geographic contexts (Hill, 2021). Yet the empirical record reveals a sobering reality: international expansion is as frequently associated with value destruction as value creation, with cultural misalignment, institutional distance, and strategic overreach emerging as recurrent failure factors (Verbeke, 2013).

This case study critically examines the internationalisation strategy of **Tesco plc**, the United Kingdom's largest grocery retailer and one of the world's top ten retailers by revenue. Tesco provides a particularly instructive case because its international trajectory encompasses both notable successes — notably in Central and Eastern Europe — and a high-profile, costly failure in the United States market. This duality allows for a nuanced evaluation of prevailing internationalisation theory against empirical outcomes, fulfilling the analytical requirements of distinction-level academic work.

The report applies four principal theoretical frameworks: Dunning's (1980) OLI Eclectic Paradigm, the Uppsala Model of internationalisation (Johanson and Vahlne, 1977; 2009), entry mode theory (Hill, 2021), and Hofstede's (2001) cultural dimensions framework. Each is applied critically — interrogating predictive utility and acknowledging theoretical limitations — before synthesising findings into evidence-based strategic recommendations.

> ***Critical framing:*** *Distinction-level case study analysis requires triangulation across theories. No single framework sufficiently explains Tesco's international trajectory; it is the intersection of OLI advantages, psychic distance miscalculation, entry mode choice, and cultural misreading that produces a complete explanatory account.*

2. Company Overview and International Context

Founded in 1919 by Jack Cohen, Tesco plc has grown from a single market stall in Hackney, East London, to a multinational retail corporation operating over 4,500 stores across multiple continents. As of 2024, Tesco generates annual revenues exceeding £60 billion, employs approximately 330,000 people, and maintains significant operations in the Republic of Ireland, Hungary, Czech Republic, and Slovakia (Tesco plc, 2024).

£60B+	330K	4,500+	5
Annual Revenue (2024)	Global Employees	Stores Worldwide	Active Intl Markets

Tesco's internationalisation began in earnest during the 1990s, driven by saturation of the UK grocery market and strategic pressure to identify new growth vectors. The company pursued an aggressive multi-market expansion strategy, entering Poland, Hungary, the Czech Republic, Slovakia, Thailand, South Korea, and — most fatefully — the United States. By the mid-2000s, international operations constituted a significant proportion of group revenues, though profitability varied substantially across markets (Seth and Randall, 2011).

This geographic diversification was not uniformly successful. Tesco exited Japan in 2012, the United States in 2013, and Turkey in 2016, whilst consolidating its Central European operations and divesting its Asian portfolio to fund domestic reinvestment. Understanding why some markets succeeded whilst others failed requires systematic theoretical analysis.

3. Theoretical Framework: OLI Eclectic Paradigm

Dunning's (1980) Eclectic Paradigm — commonly referred to as the OLI framework — remains the most widely cited theory of foreign direct investment (FDI) and internationalisation motivation. The framework posits that firms undertake FDI when they simultaneously possess Ownership (O) advantages, are attracted by Location (L) advantages in the host country, and benefit from Internalising (I) those advantages rather than licensing them to third parties.

Table 1: *OLI Paradigm Applied to Tesco's Internationalisation*

OLI Dimension	Tesco's Position	Critical Assessment
Ownership (O) **Firm-specific assets**	Proprietary supply chain; Clubcard analytics; Own-label expertise; Format innovation	Strong in logistics-intensive markets; insufficient in USA wh
Location (L) **Host-country factors**	CEE: low labour costs, fragmented retail; S. Korea: tech-receptive urbanites; USA: market size	CEE advantages correctly identified; US market size obscu
Internalisation (I) **Own vs. license**	Brand protection; quality standards; Clubcard data systems; Operational consistency	Rational for core ops but created capital-intensity reducing

Adapted from Dunning (1980); Dunning and Lundan (2008).

Critically, whilst the OLI paradigm provides a robust structural explanation for *why* Tesco internationalised and *where* it directed FDI, the framework is less illuminating regarding *how* internationalisation should be executed. Dunning and Lundan (2008) acknowledge this limitation, arguing that the OLI paradigm is essentially a static cross-sectional framework that underweights the dynamic, path-dependent nature of international learning. This is precisely where the Uppsala Model adds explanatory power.

4. Internationalisation Process: Uppsala Model

Johanson and Vahlne's (1977) Uppsala Model argues that internationalisation follows a predictable, incremental path driven by the gradual accumulation of market knowledge. Firms begin in markets of low *psychic distance* — those sharing cultural, linguistic, and institutional similarities — before progressively expanding into more distant markets as experiential knowledge reduces uncertainty.

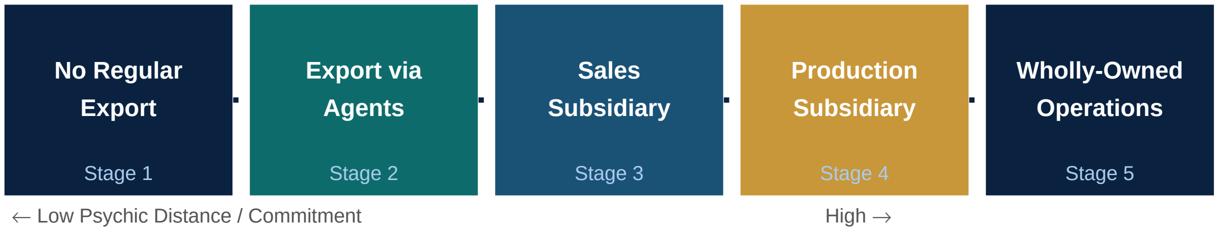

Figure 1: Uppsala Model — Stages of Internationalisation. Adapted from Johanson and Vahlne (1977; 2009).

Tesco's initial expansion into the Republic of Ireland and Central Europe broadly conformed to Uppsala predictions. Ireland, sharing language, retail culture, and regulatory frameworks with the UK, represented minimal psychic distance. Hungary, Poland, and the Czech Republic — though geographically more distant — were characterised by fragmented, underdeveloped retail sectors into which Tesco's operational model transferred with relative ease (Seth and Randall, 2011).

However, Tesco's simultaneous entry into Thailand (1998) and South Korea (1999) via joint ventures, alongside its US venture (2007), illustrates a significant departure from Uppsala incrementalism. Johanson and Vahlne's (2009) revised model incorporates the role of network relationships and the 'liability of outsidership'. The revised model predicts that firms can accelerate internationalisation when they leverage established relationships with actors embedded in target markets — a strategy Tesco successfully employed in South Korea through its Samsung partnership, but failed to replicate in the United States.

5. Market Entry Mode Analysis

Entry mode selection is among the most consequential strategic decisions in international expansion, directly affecting risk exposure, resource commitment, operational control, and profit repatriation potential (Hill, 2021). Transaction Cost Theory (Williamson, 1985) predicts that firms will prefer higher-control modes when asset specificity is high and behavioural uncertainty is elevated.

Table 2: *Entry Mode Comparison and Tesco Market Applications*

Entry Mode	Risk / Control	Tesco Application
Exporting	Low risk / Low control	Not applicable — retail requires physical presence
Franchising	Medium risk / Shared control	Used selectively; format standardisation challenges
Joint Venture	Shared risk / Shared control	South Korea: Samsung Tesco (1999) — highly successful
Acquisition	High risk / High control	Central Europe: acquired local chains in Hungary & Czech Republic
Greenfield Investment	Highest risk / Full control	USA (Fresh & Easy): costly; no local partner; £1.2bn loss

Adapted from Hill (2021); Buckley and Casson (2016). Green = success; Red = failure.

The contrast between Tesco's South Korean and American market entries is analytically instructive. In South Korea, Tesco pursued a joint venture with Samsung — a network-embedded local partner possessing consumer relationships, property access, and regulatory intelligence unavailable to a foreign entrant. The venture, branded Samsung Tesco (later Homeplus), became one of South Korea's top two retailers (Seth and Randall, 2011). Conversely, Tesco's American greenfield venture — Fresh & Easy — lacked any local partnership, entered a mature, intensely competitive market with high switching costs, and underestimated the operational complexity of building a new retail brand from zero in a market dominated by Walmart, Kroger, and Costco.

6. Cross-Cultural Analysis: Hofstede's Cultural Dimensions

Hofstede's (2001) six-dimensional model of national culture provides a systematic framework for assessing the cultural distance between home and host markets — a factor consistently identified as a determinant of international venture performance (Kogut and Singh, 1988). Cultural distance increases coordination costs, complicates consumer behaviour prediction, and elevates the probability of strategic misalignment.

Table 3: *Hofstede's Cultural Dimensions — UK vs. Key Tesco Markets*

Dimension	UK	Hungary	S. Korea	USA	Strategic Implication
Power Distance	35	46	60	40	Higher PD in Korea required adapted hierarchy; aligned in CEE
Individualism	89	80	18	91	Collectivist Korea: community marketing worked; USA/UK similarity masked be

Masculinity	66	88	39	62	High CEE masculinity: price-performance messaging; Korea femininity: quality c
Uncertainty Avoidance	35	82	85	46	High UA in CEE/Korea: trusted brand cues critical to consumer adoption
Long-Term Orientation	51	58	100	26	Korea LTO aligned with long-term investment; USA low LTO demanded faster r
Indulgence	69	31	29	68	UK/USA alignment superficially reassuring; masked deep shopping behaviour d

Scores from Hofstede Insights (2024). Country-level averages mask within-nation variation (McSweeney, 2002).

The USA presents a particularly nuanced case through the Hofstede lens. On aggregate, UK–USA cultural distance appears minimal — both are highly individualistic, moderately masculine, and relatively indulgent societies. Yet this apparent proximity exemplifies what O'Grady and Lane (1996) termed the **'psychic distance paradox'**: the assumption of similarity can be more dangerous than acknowledged difference, as it generates strategic complacency in adaptation. Tesco assumed American consumers would respond to its UK-tested compact store format and self-checkout heavy model — an assumption that proved catastrophically incorrect.

A further limitation of the Hofstede framework is its treatment of national culture as monolithic. The United States is a nation of profoundly heterogeneous regional retail cultures; the Californian consumer markets targeted by Fresh & Easy bore little resemblance to the national averages on which Tesco's strategic assumptions were predicated (Sternquist, 2015). This echoes McSweeney's (2002) fundamental critique — that Hofstede's country-level scores obscure the within-nation variation that is often most consequential for granular market strategy.

7. Critical Evaluation: The USA Market Failure

Tesco's Fresh & Easy venture (2007–2013) represents one of the most analysed international retail failures of the twenty-first century. The venture cost Tesco approximately £1.2 billion before the company sold the business to Yucaipa Companies in 2013 (BBC News, 2013).

Table 4: *Tesco Fresh & Easy Failure — Multi-Theoretical Analysis*

Failure Factor	Theoretical Lens	Analysis
Psychic Distance Paradox	O'Grady & Lane (1996)	UK–USA similarity generated complacency; critical behavioural differences in shop
Greenfield Entry Mode	Transaction Cost Theory (Williamson, 1985)	High uncertainty demanded a joint venture; greenfield created capital exposure with
No Local Partner	Uppsala Model (2009 revision)	Liability of outsidership was not mitigated; contrast with Samsung Tesco JV illustrat
Format Mismatch	Consumer Behaviour	Compact UK format conflicted with American bulk-buying norms; self-checkout alie
Clubcard Not Deployed	OLI – O-advantage squandered	Tesco's most durable competitive resource was withheld; real-time consumer learn

Author's synthesis. Sources: BBC News (2013); Seth and Randall (2011); Sternquist (2015).

The failure can be analysed across three intersecting dimensions. First, the **entry mode choice** was high-risk: greenfield investment in a capital-intensive sector, in a mature market, without network partnerships, created a structural disadvantage relative to incumbents with decades of local market knowledge. Transaction Cost Theory (Williamson, 1985) would have predicted a joint venture as more appropriate given the high behavioural uncertainty.

Second, **strategic adaptation was insufficient**. Tesco's Fresh & Easy concept was modelled on UK consumer shopping patterns rather than American norms. The company conducted ethnographic research before entry but evidently failed to translate consumer insights into meaningful format adaptation (Sternquist, 2015).

Third, the venture suffered from what Verbeke (2013) terms **'bounded reliability'** — an overestimation of the transferability of Tesco's UK competitive advantages to an entirely different institutional context. The Clubcard loyalty system, a cornerstone of UK differentiation, was not deployed in the USA — removing the very O-advantage that might have enabled real-time consumer learning.

8. Conclusion and Recommendations

This case study has critically examined Tesco plc's internationalisation strategy through four theoretical lenses, generating an integrated account of both strategic success and costly failure. The OLI Paradigm confirms that Tesco possessed substantial firm-specific ownership advantages; its international failures arose not from OLI disadvantage but from miscalculated location selection (USA) and suboptimal internalisation decisions (greenfield over joint venture). The Uppsala Model illuminates how departures from incremental, knowledge-based internationalisation elevated risk. Entry mode analysis reveals that joint venture remains the superior mode in uncertain markets. Hofstede's dimensions expose how apparent cultural proximity can be analytically treacherous — the psychic distance paradox contributed directly to Fresh & Easy's failure.

Strategic Recommendations

1. **Mandate Joint Ventures in New Markets**
   Any future expansion should require a local network partner, replicating the Samsung Tesco model and mitigating liability of outsidership (Johanson and Vahlne, 2009).

2. **Export Clubcard Globally**
   Tesco's proprietary data analytics — its most durable O-advantage — should be a core element of any new market entry, enabling real-time consumer learning and adaptive strategy.

3. **Conduct Cultural Granularity Analysis**
   Move beyond national Hofstede scores to regional consumer behaviour mapping, addressing within-country heterogeneity that national averages obscure (McSweeney, 2002).

4. **Adopt a Staged Commitment Model**
   Re-embrace Uppsala incrementalism: pilot new formats in representative test markets before scaling capital-intensive greenfield investments, reducing downside risk exposure.

In conclusion, Tesco's international trajectory demonstrates that theoretical frameworks retain genuine predictive power — the failures at Fresh & Easy closely match what OLI analysis, Uppsala theory, and Hofstede's cultural distance metrics would have predicted, had they been applied with full rigour. The lesson is not that internationalisation theory is inadequate, but that strategic decision-making must be anchored in systematic theoretical analysis rather than managerial optimism.

9. Frequently Asked Questions (FAQs)

Q: What is the OLI paradigm in international business?

The OLI (Ownership, Location, Internalisation) paradigm, developed by John Dunning (1980), explains why firms choose FDI. Ownership advantages are firm-specific assets; Location advantages are host-country pull factors; Internalisation advantages explain why firms prefer internal development over licensing. All three must coexist for FDI to be the preferred mode of internationalisation.

Q: What is the Uppsala model of internationalisation?

The Uppsala model (Johanson and Vahlne, 1977) proposes incremental internationalisation, beginning with low psychic distance markets. The 2009 revision incorporates business network theory, acknowledging that firms can accelerate entry when they leverage established network relationships in target markets.

Q: What are Hofstede's cultural dimensions and why do they matter?

Hofstede identified six cultural dimensions: Power Distance, Individualism, Masculinity, Uncertainty Avoidance, Long-Term Orientation, and Indulgence. Cultural misalignment is a leading cause of international venture failure, making Hofstede analysis a strategic necessity — though national scores must be supplemented with regional analysis (McSweeney, 2002).

Q: What entry modes are available to international businesses?

Options range from exporting and licensing (low commitment) through franchising and joint ventures (shared risk) to acquisitions and greenfield investments (full control, maximum risk). Optimal mode selection depends on market uncertainty, asset specificity, cultural distance, and firm capabilities.

Q: Why did Tesco's Fresh & Easy fail in the USA?

Tesco underestimated the psychic distance paradox — apparent Anglo-American cultural similarity masked deep behavioural shopping differences. Greenfield entry without a local partner, a British format incompatible with American bulk-buying norms, and failure to deploy Clubcard analytics contributed to a £1.2 billion loss (BBC News, 2013).

Q: How do I achieve a distinction in an international business case study?

Apply theory critically: interrogate framework limitations, compare theoretical predictions against real outcomes, integrate multiple theories coherently, and support all claims with peer-reviewed evidence. Describing what happened earns a Pass; analytically explaining why and evaluating where theory fell short earns Distinction.

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