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Learning to become a high reliability organization in the food retail business☆

Luciano Ciravegna [a,b], Esteban R. Brenes [b,*]

[a] King's College, University of London, International Development Institute, UK
[b] INCAE Business School, Costa Rica

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ABSTRACT

This case discusses Selectos, a retail chain based in El Salvador, which was put under severe strain when Walmart entered its domestic market, threatening the leading position it had acquired through many decades of investment. The case illustrates that Selectos succeeded in competing Vis a Vis Walmart because it implemented the principles of high reliability organizations. First, before Walmart entered the market, the Salvadoran company invested time and financial resources to audit its routines, finding several areas of improvement. Second, its core strategy was to focus on continuous improvements in its operations. Third, it engaged its workforce, and especially the shop floor managers, in the process of executing its strategy at the whole corporate level. Fourth, through consultation with the managers of its functional areas, it enacted systems to manage unexpected events, ranging from hurricanes to violent attacks on its facilities (preparation for unexpected events). The case is designed to illustrate how a domestic firm from an emerging market competes with a leading multinational corporation, emphasizing the importance of organizational learning, especially the development of routines and mechanisms that allow for flexibility and adaptability to changes in conditions.

Between the year 1970 and 2013, Selectos, a family business from El Salvador, had become the largest food retail group, accounting for over 63% of the domestic market with its 91 stores (Kiste, 2013). In the year 2004, Walmart approached Carlos Calleja, the vice president of the chain, to discuss a possible acquisition. It was a turning point: Carlos knew that soon Walmart would be entering the market, threatening the comfortable position of market leader that Selectos had won through years of organic growth. It was not a truly unexpected event for Carlos, as Walmart had already entered and captured the majority of markets in the neighboring countries of Central America (Agin & Ogien, 2011). However, whereas Carlos suspected that Walmart would eventually threaten Super Selectos' position in El Salvador, his preoccupation was not shared at the corporate level. Area managers, for example, purchasing and distribution managers, were unaware of the fact that in a very short time, they would be facing the most formidable competitor in the world in their own turf. Even after they learned about the imminent threat, most managers did not seem to think that the arrival of Walmart would change their tasks. Carlos realized that unless his worries about Walmart were shared across the company, and a learning process began, the battle was lost before having begun. The other possibility was selling to Walmart and achieving a substantial financial reward. Carlos decided not to sell. It was a tough choice, which put at stake his family business and the jobs of his managers and employees.

Carlos and his management team decided that to compete against Walmart, they did not need to experiment with a new strategy. After all, their strategy gained them the leading position in the domestic market (Brenes & Montoya, 2011). Selectos' brand was well recognized, its network of shops covered most of the country, and its operations generated healthy profits. What they needed, was a new approach, which would allow improvements throughout the whole corporation.

Knowing they were *the best* in the market, he felt that the company had perhaps stopped questioning what could be done better. The challenge of competing with Walmart had to be shared across the whole organization, which needed to go through a serious self-review process. He estimated that it would be between one and three years before Walmart entered officially the Salvadoran market. Before that happened, they needed to audit their processes, identify areas of weakness, implement new routines, and reduce their vulnerability to the frequent crises that hindered the efficiency of their operations, such as the damages caused by the natural events that often affect Central American countries, including hurricanes and floods (Ibarra, 2005). His plan was to ensure that their strategy was implemented better and more efficiently, and that the organization moved from a comfortable leadership position to a continuous learning, alert position. Between 2004 and 2006, Selectos implemented a series of organizational changes aimed at becoming a more *mindful* organization, an organization that knows how to learn from itself and how to manage risks and crises (Weick, Sutcliffe, & Obstfeld, 2008).

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* Corresponding author at: 2 km west of Procesa Nursery #1, La Garita, Alajuela 960-4050, Costa Rica. Tel.: +506 24 37 23 67; fax: +506 24 33 01 02.
E-mail addresses: Luciano.ciravegna@kcl.ac.uk (L. Ciravegna), esteban.brenes@incae.edu (E.R. Brenes).

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1. Literature: high reliability organizations, learning and preparing for crises

A high reliability organization is a type of organization that performs successfully in highly volatile environments by adopting flexible practices and the continuous pursuit of improvement and learning in its operations (Garvin, 2000; Rochlin, 1993). Some commonly accepted examples of this type of organizations are fire fighting units and aircraft carrier crews, which have to develop a special state of awareness and communication skills in order to perform safely in circumstances where unexpected events may, and often do, occur (Weick et al., 2008). HROs differ from other organizations in the extent to which they prepare for different types of contingencies, investing in measures, routines, and systems that allow for superior reliability, even if this results in lower financial results in the short run (Ndubisi, 2012; Porte & Consolini, 1998). HROs often choose to have some redundancies in their structures, ranging from multiple backup systems, to multiple supply routes and human resource allocations (Tamuz & Harrison, 2006). These redundancies generate extra costs, but they also allow them to function even when disruptive forces damage some of their divisions and systems or hinder them from performing their routines as planned (Rijpma, 1997).

Why is it important to study HROs? Weick and Sutcliffe (2007) point out that centralized and heavily structured strategic planning may lead organizations to stop searching for gradual but continuous improvements in their operations, thereby loosing the ability to anticipate, perceive and manage different types of threats. The terrorist attacks of September 2001, the 2008–2009 financial crisis, as well as the Japanese tsunami, the London riots of 2011, and the Hurricane Katrina illustrated that *black swans*, events that are considered to be unpredictable and unlikely to happen, do occur, generating disruption even in the most sophisticated markets, such as Wall Street, and the most developed and global cities, such as London and New York (Harrington, Weiss & Bhaktavatsalam, 2010; Taleb, 2007). Managing in uncertain macroeconomic, social, political, and environmental conditions is becoming an ever more important source of competitive advantage for corporations, especially those operating in emerging markets (Bremmer, 2005; Brenes, Montoya & Ciravegna, 2014; Ciravegna, Fitzgerald, & Kundu, 2013). By becoming more mindful, and more reliable, companies can also learn to manage volatility and crises (Leveson, Dulac, Marais, & Carroll, 2009; Waller & Roberts, 2003).

According to the literature, five core features characterize HROs: monitoring for small failures, reluctance to accept simplification, sensitivity to operations, commitment to resilience, and deference to expertise (Weick et al., 2008). The first three of them deal with mechanisms to prevent failure. When an organization monitors for small failures, it can understand their causes and take action to minimize risks before they aggravate. Being reluctant to simplification means avoiding to classify unexpected events in known categories, instead of communicating with others within and without the organization and searching for alternative solutions and sources of critical information. *Remaining sensitive to operations* is the ability of an organization not to lure itself into believing its system is fully capable to mitigate risks because they have not occurred yet. HROs keep auditing their procedures and operations (Schulman, 2004).

The other two principles of HROs help managing problems once they have taken place. C*ommitment to resilience* is the ability to put systems under stress in order to determine if it is possible to absorb it, keep working, and learn from it. According to Nemeth and Cook (2007, p.263), Resilience is "the ability of systems to survive and return to normal operation despite challenges."

HROs practice deference to expertise when they do not rely exclusively on hierarchy to managing problems as they occur, and they understand that some individuals may be better skilled to deal in some circumstances than others and expect them to step up and take control (Weick et al., 2008; Vogus, & Welbourne, 2003).

Another extremely important practice that helps to adopt HRO's principles is a good communication policy. Quarantelli (1988) emphasizes the importance of communication, especially in what is communicated instead of how is communicated and defines five types of communication to be observed in order to be effective at managing crises: (1) intraorganizational; (2) interorganizational; (3) from organizations to the public; (4) from the public to the organizations; and (5) within systems of organizations. Others authors support the role of a good communication policy; for Roberts (1990), it is important to have several channels enabled to report when an incident has occurred. Not relying only in an official channel, which can fail or deliver biased information, Hopkins (2009) indicates that mindful leadership should encourage the bottom-up communication of bad news, and not to be afraid of reporting when a small, but not yet critical, failure has taken place. Roberts, Bea and Bartles (2001a, b) emphasize that an HRO is characterized by fluid communication across the hierarchical and functional borders of the organization, which contribute to its superior alertness and mindfulness (Cooke & Rohleder, 2006; Hopkins, 2009).

Despite the rich theory supporting the importance of HROs, and the unfortunate recurrence of multiple unpredicted crises, HRO practices remain, by large, the domain of organizations operating in specific industries, such as aviation (Ndubisi, 2012). This case contributes to the HRO theory by illustrating that applying its principles allowed for superior performance in the food retail industry of El Salvador.

2. El Salvador—business environment

With a gross domestic product (GDP) of US$23.8 billion, approximately US$3800 per inhabitant, El Salvador's economy was ranking fourth in the region of Central America and Panama for 2012, with Guatemala, Costa Rica, and Panama ranking first to third, respectively (World Bank, 2013a, b, c). According to the Central Bank, one of the country's main sources of income was family remittances from the United States that reached US$3.9 billion in 2012, a 7.2% growth over 2011. It represents a monthly income for a family of five members of US$257; in El Salvador, the minimum wage for a worker in industry is US$245 before taxes and other law deductions. (Ministerio de Trabajo y Previsión Social de El Salvador, 2013).

ECLAC (2012) has an estimated average inflation rate for Latin America and Caribbean close to 7.0% for the period from 2010 to 2012. According to El Salvador's Banco Central de Reserva, from 2001 to 2008, inflation rate has been stable around 5.0%. In December 2009, El Salvador experienced a cumulative inflation rate of −0.2% (deflation). Since then, annual inflation rate has remained, on average, in less than 3.0% (0.8% in December 2012).

In the year 2008, income-related consumers were classified by El Salvador's Consumer Protection Agency into three levels; about 100 municipalities rated as *low-income markets*, exhibiting extreme poverty rates of 40.2% and average household incomes of US$201 dollars; 146 municipalities rated as *moderate-income markets*, with extreme poverty rates of 19.4% and an average household income of US$308 dollars; and only 16 municipalities obtained a rate as *high-income markets* with one-digit extreme poverty rates (7.6%) and an average family income of US$534 dollars (see Table 1). In urban areas, 63.6% of consumers had no preferences regarding fresh or processed food; only 35.7% preferred fresh food and a small proportion (0.7%) only processed food. In rural areas, unlike urban areas, less consumers (55.4%) preferred fresh and processed goods, and there was a noticeable increase of consumers who buy only fresh (44.3%), while those who bought only processed remained similar (0.4%).

El Salvador is characterized by a turbulent past. It suffered from a civil war that lasted between the late 1970s and 1992, causing over 75,000 deaths (Meyer, 2012). Since the end of conflict, El Salvador has been affected by high levels of armed violence, caused by the diffusion of organized crime gangs, called *maras*. As a result, El Salvador has some of the highest murder rates in the world (Costa, 2012; see

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