

Chrm case wal mart in germany management essay



The case analyzed in this report is about Wal-Mart's in Germany. The case provides all inclusive information about Wal-Mart and its expansion in different foreign locations. The company operations in Germany are illustrated in details along with the reasons due to which the company confronted failure in Germany. The case is quite useful in understanding the basic reasons of failure in an international market. By going through this case all essential aspects that need to be considered by a firm before going international can be identified easily.

In this report the case is assessed from the perspective of convergence so that readers can become aware with the significance of cultural values and preferences of specific country customers. Afterwards, failure of Wal-Mart in Germany is explained due to the unawareness of differences in cultural values between Germany and the USA. This was the major reason of its failure in Germany. Afterwards, another substantial reason of Wal-Mart's failure is discussed that is Germany's institutional and regulatory framework.

This is illustrated with the help of institutional theory that is significant used in understanding behaviours. In the end, some other factors that contributed to Wal-Mart's failure are discussed like code of ethics, supplier management, competitors, ineffective employee relations etc. With the help of all these aspects, it becomes evident that operating in international market is not as easy as in domestic locations. International operations require more careful approach and several kinds of analysis for attaining success.

Introduction

Wal-Mart Stores, Inc. is the largest retailer all over the world and as well as it is the in the world, the world's second-largest company. The company started its operation in 1962 and in present it operates with 4100 stores all over the US. Company's mass merchandising operations serve its customers mainly through four types of segments that include its discount stores, supercenters, the Sam's club and small convenient stores (Fernie, Hahn, Gerhard, Pioch & Arnold 2006, p. 248). The company is operating successfully from last several years and its 75% stores are in the United States but it is also expanding internationally.

The International segment admits all of its processes in Asia, Europe, and South America which are made up of Argentina, Brazil, Mexico, Canada, China, Germany, Japan, Korea, Puerto Rico, and United Kingdom. This case discussed in this report is about Wal-Mart's operations in Germany that eventually resulted in failure. This case provides all information about company's entry into Germany and the factors that directed it towards failure. In this report this case of Wal-Mart in Germany is evaluated from different perspectives like convergence, cultural theory, institutional and regulatory framework in Germany and code of conduct.

Aim of the Report

The aim of this report is to understand the basic reason behind Wal-Mart's failure in Germany in regard to different aspects and frameworks. This report will present all-inclusive information about Wal-Mart's approach in Germany as well the reasons that directed it towards failure. In this report the failure of the company in Germany will be evaluated with the help of convergence

that illustrates consumer behaviour. As well as cultural issues related to company failure will also be presented so that in future, this mistake doesn't happen again in the company.

Case Analysis from the Perspective of Convergence

Literature Review:

In present with the increasing globalization, one substantial aspect that has emerged is the convergence of income, media and technology. Number of researchers; believe that this convergence will direct to homogeneous consumer needs, tastes and lifestyles (Mooij 2003, p. 183). This could also be understood with an example of cross-border retail stores such as Wal-Mart, altering grocery needs, and changing food shopping behaviour. All these emerging aspects have encouraged the idea of identical retail stores that signifies a company's similar approach in different international locations like Wal-Mart in US and in Germany.

Identical retail stores means that these stores have similar values and presentation in spite of of their country of source. Convergence perspective refers to rational consumer behaviour or homogenisation of consumer desires and needs but it is not true in reality (Mooij 2003, p. 183). In reality the behaviour of different countries consumers is not rational or homogeneous due to their specific culture and environment.

This perspective does not reflect influence of culture and the companies that operate by ignoring culture affect has been directed towards business operations that in spite of improving efficiency has declined efficiency

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(Pegels & Song 2000, p. 196). Similar is the situation with Wal-Mart in Germany that operated by ignoring culture influence.

Critical Analysis:

Wal-Mart in Germany operated with similar approach that it adopted in US market. The success that the company attained in US encouraged it to operate with same approach as they thought consumers will behave rationally. In contrast, the situation was different in Germany due to their different cultural values and marketing environment (Lander & Barbaro 2006, p. 2). When Wal-Mart entered German market its retail spending was stagnated and was about to decline but this was not considered by Wal-Mart. The company management thought that the German consumers will behave rationally and will prefer low price products of Wal-Mart.

As well, the company ignored culture influence and didn't try to understand German culture this is also a substantial reason of its failure in German market. Aldi a significant retail player of Germany operates with 4, 100 stores and undercuts Wal-Mart on price, whereas still serving high-quality food (Lander & Barbaro 2006, p. 1). Wal-Mart didn't try to understand this pricing strategy of country competitors and started operating with their US approach and this in turn resulted in the decline in its efficiency in Germany (Pioch, Gerhard, Fernie & Arnold 2009, p. 209).

The company and its management thought that in the 'new Europe' with a single currency, consumers will become more like, will more and more consume the similar food, put on similar clothes and will purchase similar electronic products. In contrast to this, the reality is quite different as there <https://assignbuster.com/chrm-case-wal-mart-in-germany-management-essay/>

are extensive deviations among the consumers value system in diverse European countries (Mooij 2003, p. 184). Germany consumers have their own value system like at the time of purchasing they like to take decisions in private and don't like interference of sales representatives like in US.

Wal-Mart didn't understand all these aspects of German value system and operates in a way to deal with homogenous consumers and this lead it towards failure in Germany.

Failure of Wal-Mart in Germany due to differences in Cultural Values

Literature Review:

Every country people have specific cultural values and similar is the situation with Germany and USA people. Cultural values refer to specific standards of a country people regarding acceptability or unacceptability, right or wrong and important or unimportant. USA people have their specific cultural values regarding shopping or purchasing different products and services whereas German's have their own cultural values regarding shopping (Arnold 1999, p. 51). Understanding of these cultural values is essential for operating in both of these nations.

Wal-Mart is operating successfully in USA because of its deep understanding of culture but the company get failed in Germany because of its lack of understanding of German culture. In present a number of companies have aim to position themselves in diverse foreign markets but their success depends upon their ability to completely understand and to become accustomed to the explicit conditions of undertaking business in specific

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countries (Pioch, Gerhard, Fernie & Arnold 2009, p. 208). For attaining success in international markets profound intercultural competence and management skills are vital. This was not considered by Wal-Mart throughout its operations in Germany and because of its lack of cultural values understanding it confronted failure over there (Wal-Mart - the European story so far 2002).

Critical Analysis:

After going through the case and available information, it becomes evident that the failure of Wal-Mart in Germany can be significantly attributed to its lack of understanding of German cultural values. The company operated in the Germany with the cultural values that it used to follow in USA for serving its customers (Pioch, Gerhard, Fernie & Arnold 2009, p. 209). The company management didn't try to understand the basic values of German culture and it entered the country through acquisition that also presented it with several other challenges of incorporating different firms' culture (Fernie & Arnold 2002, p. 95).

The Wal-Mart stores culture in Germany was developed on the basis of American culture but in reality it was significantly different. In Germany relations concentrate on the task whereas in USA it concentrates on people. The Wal-Mart's culture was made up of associate and customer relations and in contrast the Ertkauf and Interspar culture was made up of getting job done. German consumers' attitude towards risk is low whereas American consumers are ready to take risks (Reynolds, Cuthbertson & Bell 2004, p.

267). German retailers operate by complying with several rules and regulations but this was not considered by Wal-Mart.

According to German law trading merchandise lower than cost is illegal. As well as there is also a ban on projects with superior market power extending goods or services lower than their cost price without explanation (Needle 2010, p. 160). These regulations of Germany restricted the Wal-Mart's low cost leadership strategy effectiveness. In addition to this, the company also violated several other regulations of country's retail operations. In addition to this, Wal-Mart operated with its strong USA corporate culture in Germany that substantially clashed with German expectations and led to company failure (Fernie & Arnold 2002, p. 95).

As well, in concern to customer relation the company operated with greeters and baggers that it used to follow in America, which was seen as harassment from German customers. German customers did not like that anyone else handle their purchases but all these cultural values of them were not analyzed and understood by Wal-Mart and these were the basic reasons due to which Wal-Mart confronted failure in Germany (Needle 2010, p. 161).

Wal-Mart Failure in regard to Institutional and Regulatory Framework of Germany

Literature Review:

Every country has a specific institutional or regulatory framework and same is the case with Germany. The country also has distinctive institutional and regulatory framework for doing business and operating in different industries

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for domestic as well as foreign players. Wal-Mart gets failed in Germany because of not following this institutional and regulatory framework that is essential for attaining assured success (Berggoetz & Laue 2002, p. 6).

Significance of compliance with a country's institutional and regulatory framework can also be understood with the help of institutional theory.

Institutional theory pertains to a significant macro, sociological perspective that determines retailers' compliance with store selection attributes in an extensive context. As well as it also renders a set of theoretical constructs and kinships that are suitable for companies that are interested in cross-cultural and international operations. This theory was originated in the field of sociology and it present it is substantially used in organizational behaviour (Pioch, Gerhard, Fernie & Arnold 2009, p. 208). This theory suggest that the altering environments, norms and actors can be contracted into a specific framework through which social actors who enact and react to institutional norms can be identified.

Critical Analysis:

Failure of Wal-Mart in Germany is due to its ineffectiveness to comply with country institutional and regulatory framework. This could also be understood with the help of institutional theory as it will assist in the identification of company's wrong approach. The company was not able in making connections between social actors, societal norms and institutional norms. Generally, it is said that observance by one social actor like a retailer to the institutional norms decreed by another social actor like customer

conducts to support of the retailer by the customer (Pioch, Gerhard, Fernie & Arnold 2009, p. 208).

Wal-Mart in Germany was not able to attain support of customers due to their inappropriate approaches or violation of different societal norms of doing business. With only 1. 1% share of the German market it tried to wield considerable power over its suppliers and demanded to check their operations and quality of goods (Needle 2010, p. 160). With this approach, it failed to build good relations with country suppliers that in turn affected its operations. As well, it also failed to appreciate the role of trade unions in its German business that led to several strikes and worker related issues.

The company also imposed several restrictions on its employees and their relationships that also led it towards several issues and penalties. The company was not able to follow any kind of institutional norms followed by German firms as well as it also violated business regulations related to store hours and operations, selling merchandise, worker organization right etc (Needle 2010, p. 161). All these approaches of the company and inability to comply with country's institutional and regulatory framework are highly responsible for Wal-Mart's failure in Germany.

Other Factors that contributed to the Wal-Mart Failure in German Market

Literature Review

A firm operates with several resources and strategies and all these assist it in attaining its business objectives. Management of every aspect of business is essential whether a company is operating in its domestic market or

international market. While operating in international market a more careful approach is required, as understanding about its cultural, economic, trade and political environment is essential (Needle 2010). Wal-Mart when entered Germany didn't adopted extensive market analysis and cultural analysis and due to this eventually it confronted failure. In addition to this there were several other factors that contributed towards company failure.

Critical Analysis:

One of the substantial factors that contributed towards company failure was its ineffective market analysis and nature of the German market. When Wal-Mart entered the German market retail spending had stagnated and was about to enter a period of decline due to slowdown in German economy. For creating a critical mass for expansion was difficult in that situation for the company. Another issue confronted by the company was its competitors. Some of the German competitors like Aldi were already using strategies and styles that were very similar to Wal-Mart (Needle 2010, p. 160).

Aldi was operating with discounted goods, low prices; own brand and an extensive range of products and all these situations became it difficult for Wal-Mart to operate in Germany. The next substantial issue that contributed towards Wal-Mart failure was its acquisition of second-class operators that was having relatively poor reputation (Needle 2010, p. 160). The company purchased stores but not the lands and this directed it towards problems related to leases and expansions.

Another problem was its failure to comply with German retail outlay where small to medium stores were famous. The company was also not able to <https://assignbuster.com/chrm-case-wal-mart-in-germany-management-essay/>

open its stores in prime locations due to its wrong acquisitions. In first four years of its operations, Wal-Mart employed four Chief Executives in which three were American and one was Englishman (Needle 2010, p. 160). For understanding German operations, the company should have appointed someone from Germany. This wrong approach of the company at initial stage directed it towards several troubles.

In addition to these issues, other issues that contributed towards Wal-Mart failure in Germany are its inability to comply with country code of ethics. In Germany employees were having right to organize that was restricted by Wal-Mart for its employees and this directed it towards several legal claims and issues (Talaucar 2009, p. 48). The company didn't disclose any of its financial information to its employees that is essential for every business in Germany (Needle 2010, p. 160). This aspect of Wal-Mart's operations also directed it towards several legal claims and employee rights related issues.

In this way, it can be said that the company's failure to comply with fair trading and antitrust laws of Germany was also a substantial reason of its own failure. If company would have managed all these smaller issues it would not have forced to close its operations in Germany and take exit from this market (Bradley & Urban 2004, p. 43).

Conclusion

With the help of above discussion and case analysis, it can be said that Wal-Mart attained failure in Germany due to its wrong approach and ineffective management of its operations. The company was not able from starting and it also operated with lack of analyses that is essential before entering a <https://assignbuster.com/chrm-case-wal-mart-in-germany-management-essay/>

foreign market. As well, the company tried to operate with its traditional USA approach that was not suitable for German market as every country have specific culture and values (Wal-Mart - the European story so far 2002).

Understanding of its customers cultural values is essential for successful operations in which Wal-Mart was not able.

The company didn't select a right entry strategy as it acquired second-class operators and this was also a major reason of its failure. In addition to this, it was also not able to manage its employees and suppliers that are quite vital for the success of a firm (Taylor, Beechler & Napier 1996). The company operated without complying with German laws and regulations that become a major source of its negative image in the minds of German customers (Bradley & Urban 2004, p. 43). All these aspects, if have managed by Wal-Mart it would have become able in managing its German operations.