

# Challenges walmart faces expanding their territory to china management essay



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Business operations across national borders are becoming the trend in the current era. And this trend continuously grows because of globalisation and multinational operation. In response to this globalisation issue, multinational corporations like Wal-Mart tend to operate in other countries to have excellent advantage. According to Amponsah (2001) globalisation and the eagerness of a certain business organisation to operate across borders involves two dimensions i. e. change in economic operations of various countries, and change in the participants of global economic operations. Several people believe that the globalisation of economic activities of every country would hasten the fight against poverty (Macarov 2003, p. 103).

But like other companies that are operating in local scale, Wal-Mart a multinational company also faces different opportunities and challenges in the foreign market. With this, this paper will be discussing the opportunities and challenges that Wal-Mart faces in venturing the Chinese territory.

## **Opportunities**

A business venturing to a foreign market creates good opportunities. As for Wal-Mart venturing in China, a new foreign market like China might provide opportunities for new growth. Aside from this, Wal-Mart uses global expansion to lower costs of goods, accelerate speed to market, improve quality of products and of course to cut their overhead costs considering that China is a low cost country whereas the labour is cheap compared to other countries in the West (Walmartstores, 2010). Most MNCs are establishing subsidiaries in other nations to reduce costs, mainly through the use of cheap foreign labour in developing countries. Like other MNCs, Wal-Mart can hold down costs by shifting some or all of its production facilities abroad.

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Although Wal-Mart are not claiming that they using the opportunity of global expansion to escape the protectionist policies of an importing country, it is remains the motives of most MNCs. Through direct foreign investment, a corporation like Wal-Mart can bypass high tariffs that prevent its goods from being competitively priced. For example, when the European Common Market (the predecessor of the European Union) placed tariffs on goods produced by outsiders, U. S. corporations responded by setting up European subsidiaries ( ' Multinational Corporation' 1998). Venturing in China is also a good opportunity for Wal-Mart to prevent competition. The most certain method of preventing actual or potential competition from foreign businesses is to acquire those businesses (( ' Multinational Corporation' 1998).

Despite of the opportunistic feat of global expansion, Wal-Mart holds that they create employment, create wealth, and improve technology in countries that are in dire need of such development. Critics, however, point to their inordinate political influence, their exploitation of developing nations, and the loss of jobs that result in the corporations' home countries.

## **Challenges**

### Cultures

Maddox (1993) claims that going global require transformation of managerial skills learned at the home office to enable the managers to function cross-culturally. Business firms must focus on selecting and training managers to become more attuned to different cultures, particularly in the culture of their country of assignment. In the case of Wal-Mart, their Board of Directors

should have identified economy, politics, religion, value systems, and frame of reference of the Chinese consumers regarding the products and services that they offer as the primary areas that posed distinct challenges in their expansion to China. Thus, the same aspects merit the attention of the leaders of Wal-Mart who will be assigned at the company's branch in China. The Chinese culture and lifestyle are different from those of the Wal-Mart's home country i. e. USA and other Western nations where the company operates. Thus, the success of operation in China relies on the ability of the leaders to facilitate business operations in the midst of cultural diversity among the employees and distinct cultural characteristics surrounding the company such as laws, social norms and business practices.

In evaluating the culture of China as part of Wal-Mart's business operation, Hofstede's dimensions culture was used. Actually, Geert Hofstede is a Dutch organisational anthropologist who divided culture into four dimensions at culture level-power distance, individualism/collectivism, masculinity/femininity, and uncertainty avoidance (Dahl, 2004). It is important to be aware and comprehend these cultural dimensions for these have an influence on the internal and external workings of organizations that operate on an intercultural level.

Power Distance. Power distance is described as " the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally (cited in Hofstede 1991, p. 28); more simply, it is concerned with how equal, or unequal, the people are in a specific society or nation. In China, they have high power distance i. e.

80 PDI, this means that there is significant amount of inequalities in power  
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and wealth within China. As a result, it is quite likely that that society employs a caste system and does not permit significant development for its people (' Geert Hofstede cultural dimensions' 2010).

In the corporate-oriented context, firms with a high power distance employ a tall organizational structure because there is greater and higher rigidity in terms of hierarchy. Also, there is a large proportion of managerial employees to the overall human resource population, high job ranking for white-collar work, large compensation differentials, and low requirements for entry-level positions (Earley, 1997, p. 147).

Individualism versus Collectivism. Individualism is how a society perceives achievement and personal relationships, may it be individually or collectively. Furthermore, according to Hofstede (1991), individualism is a set of values that concern the relationship of a person to his or her collectivity in the society (as cited in Earley, 1997, p. 144). In China, the individualism was low i. e. 20 IDV which indicates that China is a nation with low individualism and has a collective nature wherein close bonds exist among the people (' Geert Hofstede cultural dimensions' 2010). Moreover, collectivistic people also perceive themselves in relation a societal and cultural context. This is a great challenge for Wal-Mart considering that their mother country United States has high collectivism as can be observed through the nature of their families. People who reside in such locations live in nuclear families, as oppose to highly collective Asian individuals who normally live with members of their extended families.

Masculinity versus Femininity. Masculinity versus femininity refers to the gender differentiation, or more specifically, the extent of how a society applies the traditional perception of man as a model of success, control, and authority. In nations with high masculinity, men control a major part of the society and power structure, while females are restrained because of such male supremacy (' Geert Hofstede cultural dimensions' 2010). In China, they have high masculinity i. e. 66 MAS. Actually this is important for Wal-mart's operation since it relates to achievement, industrial strife, high growth, aggression, work stress, and conflict. To be more specific, firms that are more masculine are fast-paced, aggressive, and focus more on development and growth over harmony and stability (Earley, 1997, p. 164). On the other hand, a feminine-oriented company is more concerned on the social interaction and operations among human resources. Moreover, such firm has a considerate and nurturing nature, which means that there is more focus on interpersonal functioning and harmony over personal gain (Earley, 1997, p. 164). Hence, the employees' welfare is the foremost concern, because this results to the company's ability to establish the capability of an individual to contribute to interpersonal welfare in the organization.

Uncertainty Avoidance. As was defined by Hofstede, uncertainty avoidance is the " extent to which the members of a culture feel threatened by uncertain or unknown situations (cited in Hofstede 1991, p. 113). As seen in the index, China has low uncertainty avoidance which indicates that the country was less rigid when it comes to change, could handle risks, and have less rules and regulations, since they could effectively endure diverse opinions (' Geert Hofstede cultural dimensions' 2010).

For Wal-Mart, uncertainty may come from the internal and external environment. An organization's response to such ambiguities, through the use of rules, rituals, and technology, affects its image of high or low uncertainty avoidance. This could be a great challenge for Wal-Mart since China won't easily embrace the change they would bring in the country.

A Fifth Cultural Dimension. After additional studies which were mainly focused on Chinese managers and workers, Hofstede introduced a fifth cultural dimension, which is the long-term orientation. This focuses on how nations apply, or do not apply, long-term devotion to conventional, forward thinking principles (' Geert Hofstede cultural dimensions' 2010). Countries with high levels of long-term orientation recommend a strong work ethics and anticipate long-term rewards as a consequence of today's hard work. Thus, long-term commitments are emphasized and traditions are respected (' Geert Hofstede cultural dimensions' 2010). This is a great challenge for Wal-Mart since they came from countries with low levels of long-term orientation that are capable to experience change because long-term customs and behaviours are lessened, and change is no longer hindered.

## **Political**

The primary difference in the economies of West and China is the orientation. Most of the west countries economy is affluent while the Chinese economy adopts the economic style of Soviet Union wherein most of the economic activities are centrally planned by the government. In China, the local officials have immense authority although the economy is open to foreign investment and trade. The regulations state that Chinese firms

should have at least 51 percent ownership and control of joint ventures with <https://assignbuster.com/challenges-walmart-faces-expanding-their-territory-to-china-management-essay/>

foreign investors (' Economy of China' 2010). Ramsay (2003) reports that it generally takes two to three months to register a business in China with the government putting limits on the company's business scope (p. 8). The difference in the economic orientation of China and Wal-Mart's home country USA poses certain challenges to the leaders of said company. These leaders are accustomed to a free market in the USA economy wherein investors, consumers and producers transact free business and determine the flow of economic activities. In China, they would encounter restrictions in the various operational activities of the company such as production and marketing of certain types of products because the Chinese government pursues the interests of Chinese business organizations. Secondly, China's transitional economy as cited by Alon & Shenker (2003) since the mid-1970s has fostered a tremendous opportunity for international firms to establish operations in the country and made international joint venture as a primary mode of foreign direct investment. However, managing joint ventures sometimes leads to cultural conflicts between Chinese managers and foreign managers. Wal-Mart's leaders are more Western and their approaches to management clash with the Chinese management approach. Chinese managers rely on interventions from the extended network outside the company to manage risks and threats rather than following the budgets and plans established in advance that are expected to guarantee success. The Chinese managers prefer particularistic and pragmatic solutions to organizational problems by analyzing causes of problems and soliciting outside intervention in problem solving while Western managers like Wal-Mart's managers have the tendency to act in reference to a belief in an underlying principle that provides a ready matrix into which current reality

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and present existence can be fitted. As an American, Wal-Mart's managers believe that future circumstances can be integrated into the ready matrix which serves as an analytic model to guide decision making processes (p. 147). Considering these differences, the Western leaders who will be assigned to China may encounter conflicting management styles with their Chinese colleagues. Thirdly, USA and China differ in religious beliefs. USA follow Christianity, especially Protestantism, and believe that good works are gifts of hardwork and God's grace in the life of His believer and not by interventions of outside forces (' Christianity-Protestantism' 2010). Chinese are more fatalistic and believe that humans must follow their destiny by living in unity with the world of nature and pursuing social conformity (' Religion in China' 2001). Hence, Western employees would perform their duties based on their personal judgments and decisions while their Chinese counterparts would consistently attempt to abide by the rules and seek opinions of other employees as they are more inclined to seek conformity. These differences in idea of independence would make the leaders of Wal-Mart consider the outcomes and motivations of their manpower. Western employees would be motivated to perform well if they are given sufficient freedom at work while Chinese employees may prefer to work in teams and have access to constant supervision. Fourthly, the Western value systems relative to interpersonal relationships are in conflict with those of the Chinese. Western people as cited by Alon & Shenker (2003) value personal relationships with colleagues and supervisors but organizational hierarchy does not dictate their relationships. They equally communicate and relate to all members of the organization. Chinese employees, on the contrary, prefer a system in which coordination is hierarchical wherein the key institutional

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values underscore loyalty and submission to a leader whose right is to establish the goals of the group. Accordingly, the leaders of Wal-Mart who would be assigned to manage some operations of China have to practice special care in dealing with their Chinese subordinates and fellow supervisors. They may encounter Chinese colleagues who would constantly consult them before they perform their responsibilities. These leaders have to recognize that the Chinese culture places much reverence to leaders while Western people prefer to work independently most of the times.

## **Conclusion**

The best way to measure success in international business is through constant monitoring by the mother company. Through monitoring, the head company can gauge expatriate failure or success, and cross-cultural competence of expatriates. Wal-Mart must be able to implement consistent monitoring measures in their operations and the performances of the employees and managers sent to China. Venture failure is oftentimes associated with lost opportunities, reduced productivity, and damaged relationships while expatriate success connotes the accomplishment of the opposite. Furthermore, cultural competence is measured if the manager assigned at a foreign location possesses a strong personal identity, has knowledge of and complies with the beliefs and values of the culture of the country where he is assigned, demonstrates sensitivity to the affective processes of the culture, communicates clearly in the language of the country of assignment, displays a degree of culturally-sanctioned behavior, nurtures active social relations with the people and authorities of the country, and negotiates the institutional structures of that culture. Basically,

the leaders should be able to adapt quickly to the Chinese culture, comply with its requirements while performing their responsibilities, and gain appreciation of the unique processes of doing business in the country.